



The business environment surrounding the Sumitomo Forestry Group became very harsh in fiscal 2008. The global economic slowdown had a large impact on the Japanese economy, sending shock waves through the housing and real estate industries, with new housing starts slowing, and prices for real estate and materials falling across the board. The Group's fiscal 2008 results reflected this economic environment. With slowing demand in Japan and overseas for timber and building materials, and declining sales of custom-built houses, consolidated net sales declined 4.4% year-on-year to ¥823.81 billion, operating income decreased 5.5% to ¥6.837 billion, and net income was ¥1.028 billion, a decrease of 7.8%.

Looking forward to the prospects for the global economy, the current non-transparent conditions will continue and it is predicted that a true recovery may take years. The Japanese housing market, which has a strong correlation with the Group's businesses, will likely see demand recover in the short term, however demand in the domestic market will inevitably contract as the Japanese population decreases, and ages, over the medium and long term. The world's population, on the other hand, will continue to grow, causing problems related to energy and the environment to become even more of a challenge. Thus, while we sincerely believe the importance of renewable wood resources will grow, in light of these great changes, we do not believe it possible to achieve the same level of growth we have enjoyed in the past simply by doing things as we have in the past.

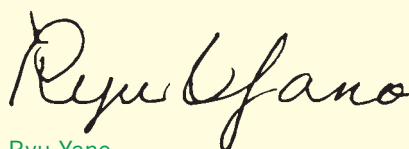
The Sumitomo Forestry Group has been advancing its Long-Term Management Plan, Project SPEED, since fiscal 2007, aiming for enhancing the profitability of existing businesses and nurturing new businesses that will become new sources of profits for the Group. This plan for continuing the Sumitomo Forestry Group's growth takes into account our competitive strengths, business domains, and future business environment, and seeks to further strengthen core businesses that leverage our current strengths, and also to strengthen and nurture growth businesses that will drive profits in the future. From the current environment, it is clear that the operating environment will continue to be harsh but we fundamentally believe in staying the course with our long-term strategy. Thus, we will continue to invest in expansion of the focus growth areas identified in that plan.

Sustainability continues to grow in importance as a measure to address the growing issues of the Earth's environment. In the more than 300 years since the Group's beginnings, we have continued to accumulate knowledge and experience as the "wood professionals," having expanded our businesses around wood. Our Corporate Philosophy—"The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services"—has been the key to the sustainable growth of our businesses. We are now in an age where, at the national level, efforts to preserve the environment are progressing rapidly, and at the corporate level, environmental issues must be given extremely large weight in our business activities. The Group's businesses—management of forests, distribution and manufacturing of timber and building materials, and housing-related—all have a direct connection to environmental issues.

Coexistence with the environment is a stated goal of government policy and embodied in laws that encourage wooden housing, use of Japanese timber, and the promotion of long-lasting housing—all of which are "tail winds" for the Group. The Group will thus secure new growth centered upon wood by leveraging the experience and knowledge we have gained through the centuries, and creating synergies between our businesses and the environment.

We ask for your continued understanding and support.

September 2009



Ryu Yano  
President / Director

## INTERVIEW WITH THE PRESIDENT

In a harsh operating environment characterized by a slowdown in the housing and timber/building materials markets resulting from the global economic slowdown, the Sumitomo Forestry Group will conscientiously address short-term management issues, while building a new foundation for profitability based on our long-term management plan.

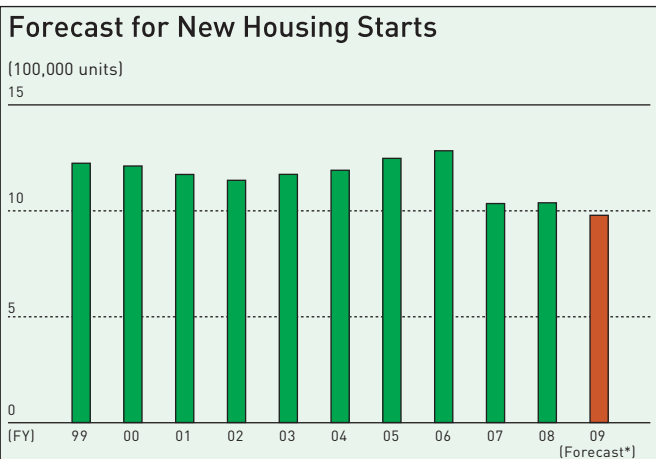
### Q 1.

**What is your perspective on the market environment surrounding the Sumitomo Forestry Group?**

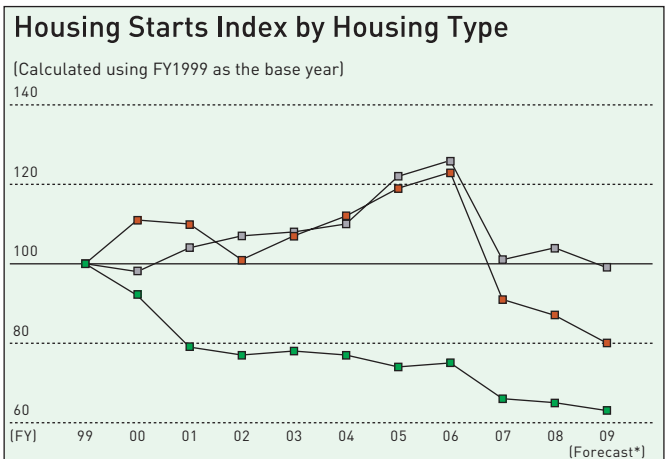
**A 1.** In fiscal 2008, new housing starts totaled 1.039 million houses, of which owner-occupied homes—which strongly impact our business—accounted for about 310,000 new starts, thereby continuing the sluggish trend of the prior year. In addition, the economic recession caused by global financial instability increased the risk of falling incomes and

employment prospects, in turn reducing the consumer's desire to acquire housing. This freezing of the housing market, a key driver of the Group's performance, produced the currently harsh operating environment.

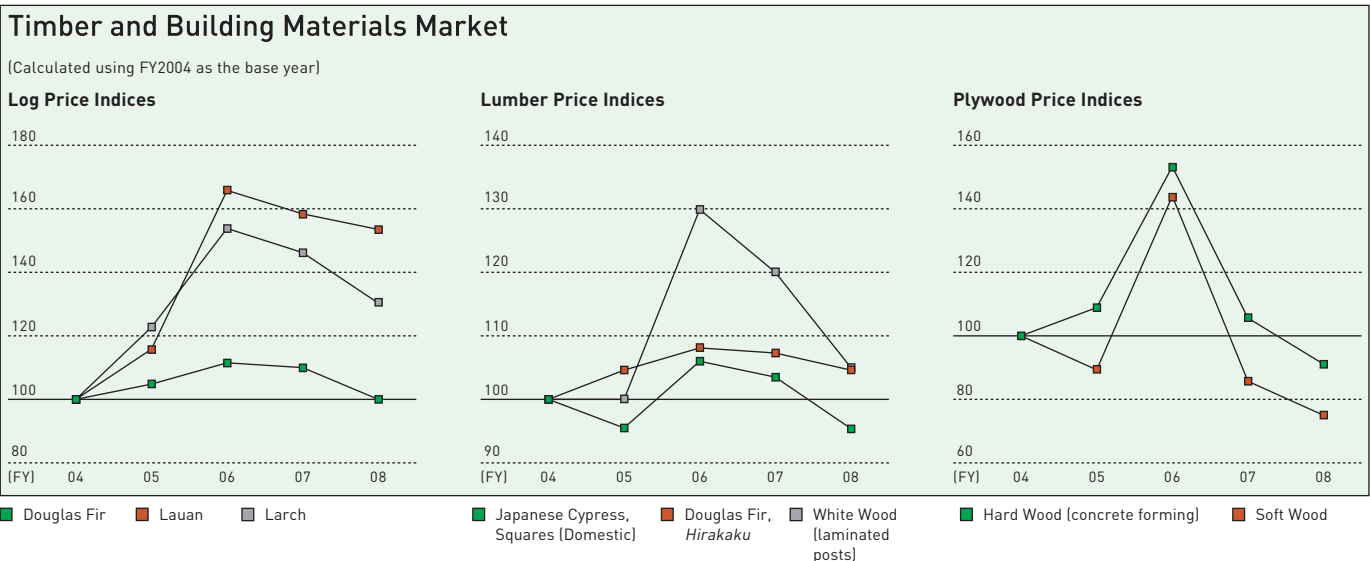
In one of our core businesses, unit sales of custom-built detached housing stagnated, and falling unit prices and declining total volume in our timber and building materials distribution business made for a difficult year. The manufacture of building materials, in both Japan and overseas markets, also faced declining domestic and overseas demand. Furthermore, the crash of financial markets in the latter half of 2008 caused a worsening in the management of the Group's pension assets, resulting



Source: Ministry of Land, Infrastructure, Transport and Tourism  
\* In-house estimate



\* In-house estimate



# Staying on Track—Solid

in an accounting loss due to actuarial calculation of retirement benefit accounts, which put pressure on the earnings of our main business.

In fiscal 2009, we do not foresee a significant recovery in the number of new housing starts, and expect that recovery in the housing-related markets will take time as well. We do believe, however, that latent demand in the domestic housing market remains high, even if not clearly manifested due to the current depressed consumer mindset. In the domestic market, favorable conditions for acquisition of a home, including an unprecedented large reduction in taxes on housing loans, housing investment and gifts, are coming into focus. Aligning our strategy with this opportunity will be the launching point for the Group going forward.

## Q2.

**In this market environment, please elaborate on the key issues to be addressed in the short term, as well as the current state and future prospects for your core businesses—housing and timber/building materials.**

**A2.** This is an important year for us to strengthen the foundations and increase our earnings potential. Specifically, we must reduce fixed costs aggressively and shift human resources to key focus areas. We need to restructure and reform, while continuously improving the organization's constitution, particularly in our core businesses.

In the housing business, we intend to reduce the costs of construction and materials in parallel with re-engineering the business infrastructure. We will closely examine the cost-effectiveness of each of our model homes around the country, and terminate those that are inefficient. At the same time, our retail strategy calls for increasing the number of roadside sales offices,\* as well as leveraging the depth and breadth of the Sumitomo Forestry Group through "one-stop shops" that integrate every aspect of home ownership: custom-built homes, remodeling, real estate brokerage, etc., in each area. This will simultaneously lower our cost of retail operations and improve the convenience of access to consumers, increasing both sales efficiency and the volume of orders received. In the area of custom-built detached wooden houses, we plan to enhance our line-up of attractive houses that offer basic structural designs that comply with the standards stipulated in the Excellent Long-term Housing Promotion Act, thereby offering significant tax advantages to consumers, as well as high environmental functionality, long-term after-sales maintenance systems, and superior cost-performance. In addition, we will cultivate demand from existing housing stock by establishing Owners Support Groups to meet the diverse needs of owners of *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses. We also aim to increase sales to corporate customers and their employees, and strengthen our ability to gather information outside of sales offices by establishing a new corporate marketing department that will develop enduring relationships.

\* Please refer to the following pages for more information on Roadside Sales Offices and One-Stop Shops.

### Increasing Efficiency of Model Homes

	Fiscal 2007 Year-end (Actual)	Fiscal 2008 Year-end (Actual)	Fiscal 2009 Year-end (Projected)
Number of Model Homes	344	321	304



# Strategies for Growth

## Roadside Sales Offices and One-Stop Shops

### Roadside Sales Offices

The Group will position Roadside Sales Offices in locations that are highly convenient to customers, particularly in regional cities where many visit via their personal automobiles. Specifically, the Group is locating integrated facilities (offices, show rooms, galleries, etc.) facing major roads in suburbs, moving shops away from leased space in front of train stations as we have done in the past.



### One-Stop Shops

One-Stop Shops provide a fully integrated environment offering all housing products and services, and allowing the consumer to find solutions to all their housing needs in a single location. Virtually every service related to housing that a customer may require, from new house construction, remodeling and real estate brokerage to exterior construction,



etc., can be found in one convenient location.

### Overview of Roadside Sales Offices and One-Stop Shops

	Fiscal 2008 Year-end (Actual)	Fiscal 2009 Year-end (Projected)
Branches / Sales Offices	89	85
One-Stop Shops	24	30
Roadside Sales Offices (of which are One-Stop Shops)	26 (6)	32 (7)

Since the timber and building materials business is strongly affected by shifts in the number of new housing starts, we judge that it will be difficult to grow sales in fiscal 2009 given the current market environment. Thus, we will focus on the fundamentals—zero-inventory sales, delivery management, etc.—our industry-leading ability to procure products via our global network; our ability to gather and act upon information; as well as our ability to propose new, high-value-added ideas that result from being vertically integrated all the way from managing forests to building houses. We will aim to secure stable earnings through the creation of a unique value chain: sales, procurement, intelligence, and creativity. We also believe that the Group plays a key role in revitalizing the entire industry, which is primarily comprised of small and medium enterprises, including domestic home builders and wholesalers of timber and building materials. To that end, the Group's network of building contractors that forms the INOS Business\* provides product defect liability insurance, support for compliance with the provisions of the Excellent Long-Term Housing Promotion Act and other new laws, and management support for the formation of business continuity funds by superior small and medium enterprises. In the spirit of mutual dependence and mutual benefit, we promote distribution alliances in every region, as well as support and joint operations.

In our relentless pursuit of efficiency in these two core businesses, we will re-evaluate our allocation of human resources and transfer capable individuals to growth businesses.

\* **INOS Business:** the INOS group is comprised of superior regional home builders from around the nation who have joined together to create "a network of builders of safe and reliable homes." The Group provides high-quality materials, structural checks using advanced CAD systems, technical support, planning for customer events, etc., thereby promoting the growth of safe and reliable homes for customers in regional areas.

# Q3.

Please tell us about your growth strategy.

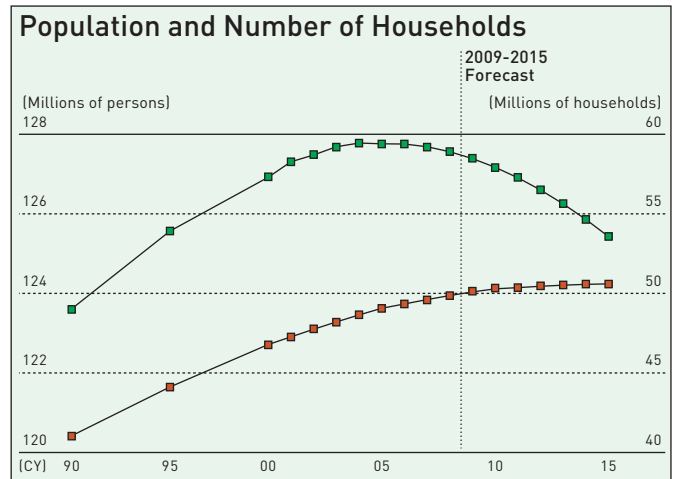
**A3.** We aim for significant growth by taking the people and knowledge we've gained in our two core operations—New Custom-Built Housing and Timber/Building Materials Distribution and Manufacture—and leveraging both in high-growth markets and areas of business. Under the Long-Term Management Plan, Project SPEED, which was launched in fiscal 2007, we continue to invest aggressively in building a well-balanced business portfolio with solid earning power, comprised of new priority growth businesses—overseas operations, real estate business, and remodeling—as well as our core businesses, wherein we are focused on increasing their ability to generate earnings.

This plan was inspired by the realization that we could not expect significant future growth with a business model that was based solely on our current core businesses, in light of long-term trends in the Japanese and global economies. In Japan, the decline of the overall population will cause a decline in the number of households, with a resulting contraction in the owner-occupied housing market. While the graying of the Japanese society will become a reality, at the same time, global economic expansion, driven primarily by the BRICs, will increase demand for resources, requiring new responses to environmental issues. Clearly, we are facing a paradigm shift in the operating environment surrounding the Group, requiring us to create new drivers of earnings growth.

We need to revise the numerical targets established in the original plan in light of the struggles we face in what can only be called a historic simultaneous recession around the globe. The basic strategy, however, remains unchanged. The need to create a well-balanced portfolio of businesses with solid earnings foundations continues to grow, which explains why we are committed to strengthening the earning power of our two core businesses while nurturing our priority growth businesses to create new drivers of earnings.

We have reaffirmed our determination to vigorously grow, even in times of dramatic changes in the operating environment, through steady cultivation of our three priority growth businesses: overseas operations, real estate, and remodeling.

We will continue to invest capital and human resources efficiently and effectively in our priority growth businesses. In fiscal 2009, we plan to shift approximately 70 people to priority growth businesses from our core business units.



■ Population (Left) ■ Number of Households (Right)  
Source: "Population Statistics of Japan 2008" and "Forecast for number of households" published by the National Institute of Population and Social Security Research

# Q4.

Please tell us about challenges and future plans for your priority growth businesses.

**A4.** Our overseas operations can be broadly divided into four areas: the manufacture of building materials, the housing business, plantation and environmental forestry business, and distribution. While the timber and building materials business continues to grapple with the challenges of worldwide stagnation in demand, we continue to strengthen our business bases in each geography. In June 2009, for example, we launched our Medium-Density

## INTERVIEW WITH THE PRESIDENT

Fiberboard (MDF)\* molding business for housing in the Australian domestic market, aiming to create high-valued-added MDF products in the Oceania region. In Indonesia, we are differentiating our offering by developing environmentally sound products such as flooring that utilizes wood from plantation trees. In China, where demand will grow, we plan to begin operations in September 2009 of our newly established manufacturing facility in Fuxin City (Liaoning province), which manufactures high-quality plywood from poplar wood from plantation trees.

In our housing business, we are advancing new projects in Australia, where demand remains steady, while being understandably cautious in North America, which has been sharply impacted by the slump in the U.S. housing market.

In our plantation and environmental forestry business, the continued expansion of our forestation operations will remain central in our initiatives to secure the raw materials to create synergies with our manufacturing businesses. The Group has extensive experience in plantation forestation, and we intend to grow overseas operations in this area as business opportunities have grown in line with increased environmental consciousness.

*\* MDF and MDF molding business—MDF (medium-density fiberboard), which can be formed in any number of shapes, is gaining attention as a high-value-added product area that leverages its unique characteristics in, for example, interior finishing such as door frames.*

Real estate operations are facing challenges in light of the rapid worsening of market conditions but remain a critical business area to achieve our management philosophy of “contributing to a prosperous society through all types of housing-related services.” We plan to leverage the brand equity of our custom-built detached housing business and focus on the development of multi-generational communities. We will grow our real estate business around providing solutions and services that support a variety of lifestyles and life stages, from seniors to children. We aim to steadily increase earnings from the properties we’ve invested in to date and strictly manage our inventories. We will also continue our effective land utilization operations, and invest in select properties with an eye to new master-planned community developments that create opportunities to sell detached spec homes.

The market for remodeling has grown to about ¥6 trillion in recent years and we expect this growth to continue. Since the majority of the existing detached housing stock was built prior to the promulgation of the “New Seismic Standards”\* provisions of the 1981 revised Building Standards Act, we believe there is strong latent demand for remodeling services across a range of consumer needs, including seismic retrofitting to increase housing safety, creation of barrier-free environments for a graying society, and remodeling to suit the needs of people as they progress through varying life stages. And since the majority of the existing stock is constructed of wood, this growing market plays into the strengths of our Group as a top-ranked brand in custom-built wooden houses.

In April 2009, the Housing Division established Owners Support Groups at every branch office targeting the more than 220,000 owners of the houses we’ve built. Working closely with Sumitomo Forestry Home Tech Co. Ltd., which specializes in remodeling, we will endeavor to significantly increase the demand for remodeling services.

Remodeling is a central element of the services menu offered through the One-Stop Shop conversions that leverage the total strengths of the Sumitomo Forestry Group. We are aiming to increase orders received by focusing on consultative sales leveraging our rich experience and high technological sophistication, proactively proposing solutions for remodeling ranging from rehabilitation of classic Japanese-style homes to condominium renovation that endorses the aesthetic qualities of wood.

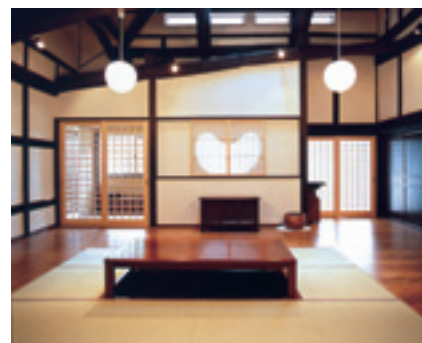
*\* New Seismic Standards—Seismic standards that were announced when the Building Standards Act was fundamentally revised on June 1, 1981. Wall quantity standards for wood-construction homes were revised, requiring significant structural strengthening. Following the 1995 earthquake in the southern part of Hyogo Prefecture (1995 Kobe Earthquake), laws related to seismic reinforcement were enacted that require seismic inspection of all structures built in and before 1981.*



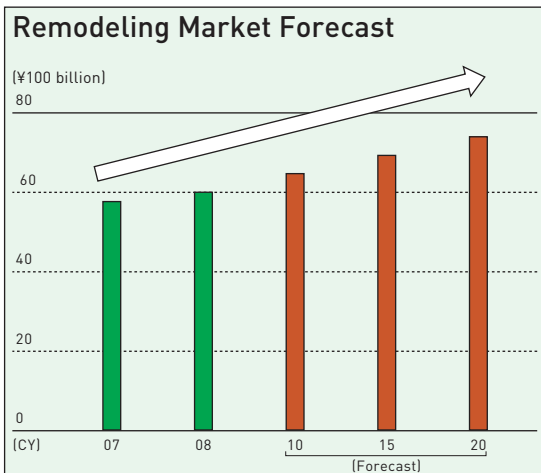
Moldings formed from MDF



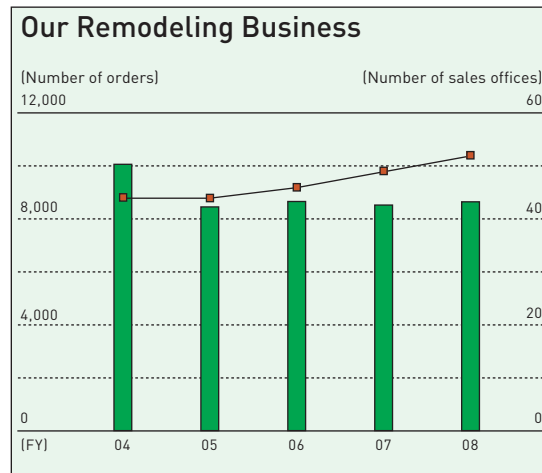
Housing in Australia (Melbourne suburbs)



Remodeling of classic Japanese-style home



Source: "House Renovation Market 2008" published by Yano Research Institute Ltd.



■ Orders (Left) ■ Sales Offices (Right)

## Comparison of Number and Age of Housing Stock

(10,000 units)

	2003 Survey		2008 Survey		Increase/Decrease	
	Total	Owner-Occupied	Total	Owner-Occupied	Total	Owner-Occupied
Housing Stock (total units)	4,686	2,867	4,961	3,037	275	170
Built in and prior to 1980	1,760	1,220	1,589	1,129	-171	-91
Built after 1981	2,707	1,618	3,017	1,852	310	234
Unknown	220	29	355	55	136	27

Source: Ministry of Internal Affairs and Communications, 2008 Statistical Survey of Housing and Land

# Q5.

As you develop business from the long-term perspective, what are the elements that will form the core competencies of Sumitomo Forestry?

**A5.** We have a unique business model: we are not only a top brand contractor of wood construction homes but also the leading domestic trading company in timber and building materials in terms of trading volume. As professionals in both "housing" and "wood," we possess high-level knowledge and technology, and we are in a position to leverage a competitive advantage in terms of added-value and cost when it comes to the effective use of wood resources. "Symbiosis with the environment" is the most important theme wherein we are able to exploit our singularity and advantages. Wood is one of only a handful of truly renewable resources. As they grow, trees absorb and fix (store) carbon; as wood products, they continue to store carbon, and forests formed by trees provide many environmental benefits for the common good, including creating a habitat for biodiversity. We believe that we must create value-added products and services that effectively promote the wonderful natural blessings of wood in our businesses. Doing this will not only form new core competencies for the Group but will also contribute to society.

One example of how the Group is uniquely positioned to support both reduction of CO<sub>2</sub> and coexistence with the environment, from upstream logging to downstream construction of houses, is a carbon offset\* project wherein the Group, in cooperation with the government of Indonesia, plants



Bromo Tengger Semeru National Park in Indonesia, site of plantation forests.



## INTERVIEW WITH THE PRESIDENT

and manages trees in a national park equivalent to twice the floor space of the wooden houses we build in Japan.

At the heart of our Group is a corporate philosophy nurtured over more than 300 years of history in the forestry business. “Sustainability” is something we know well. After all, we’ve always been involved in “sustainable forestry”—the cycle of planting trees, logging, and then replanting trees—so that we never lose the public benefits of forests, even while continuing to run a forestry business. This truly is the wellspring of the Group’s core competencies.

\* **Carbon Offset**—the concept of compensating for, or offsetting, greenhouse gases, including CO<sub>2</sub>, which are created by daily living, economic activity, etc., and thus are difficult to reduce, by reducing or absorbing greenhouse gases in a separate location.

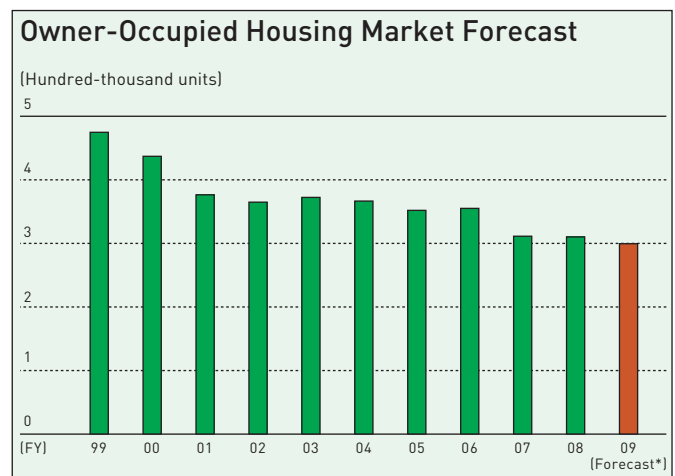
### Q6.

**What is your view of the future of the housing market in Japan?**

**A6.** As previously discussed, when viewed solely from its definition as a “market,” one can only say that it will continue to trend downward as the overall population declines and the number of households decreases. That being said, I think the concept of “housing” will change in the future, with the key words becoming “coexistence with the environment” and “excellent long-term housing.”

The major turning point for that shift in thinking came in June 2009, when the Excellent Long-Term Housing Promotion Act was enacted. The objective of this law, simply put, is “to create a society that builds excellent-quality housing that is used and cherished for the long term.”

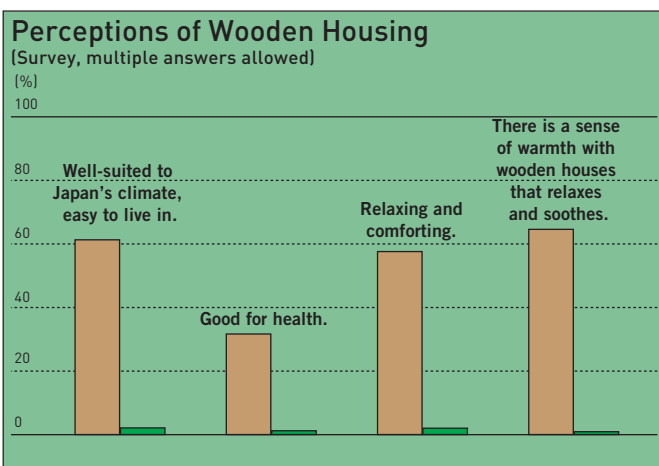
The Excellent Long-Term Housing Promotion Act includes provisions for the use of timber grown in Japan, as well as for the promotion of research and development in technology, including traditional construction techniques that use wood. We believe that with the beginning of the “age of excellent long-term housing,” the role that wooden housing can and should play will become even more important. From an environmental perspective, wooden housing



Source: Ministry of Land, Infrastructure, Transport and Tourism  
\* In-house estimate

has the merit of greater carbon retention compared with other construction methods, and the amount of carbon released is small, increasing its value and importance in the creation of a low-carbon society.

In October 2008, the Group conducted a survey of perceptions of wooden housing. The survey results showed that about 60% of people have positive perceptions of wooden housing, such as “wooden houses are



Legend: ■ Wooden Houses ■ Non-Wooden Houses (Steel-framed/reinforced steel/concrete structure)

Source: Excerpted from the tabulated results of Sumitomo Forestry survey, “Survey related to Housing.” (October 2008 survey of 1,030 respondents, conducted via the Internet)

easier to live in and are well-suited to the Japanese climate,” and “there is a sense of warmth with wooden houses that relaxes and soothes.”

From these perspectives, we believe that demand for wooden houses will grow, even with the overall market decreasing in size.

## Q7.

Please tell us about your plans for return to shareholders and improving company value.

**A7** We recognize that returning profits to our shareholders is one of the most important issues we have, and our basic plan is to do so in a continuous and stable manner. In fiscal 2008, the operating environment worsened and the crisis in the financial markets negatively impacted management of the Group pension funds assets, with the result that current-period net income moved within a low range, basically unchanged from the previous fiscal year. Nonetheless, we were able to maintain the annual dividend at ¥15 per share. Internal reserve funds were used to make effective investments involved with increasing the value of the corporation in line with the long-term management plan, as well as in research and development.

The Group’s corporate philosophy is to “utilize timber as a renewable, healthy, and environmentally friendly natural resource and contribute to a prosperous society through all types of housing-related services.” I believe that creating the connections between the realization of this corporate philosophy and earnings is directly linked to increasing the value of the corporation. Even as price competition intensifies as the economic environment worsens, we will never lower our quality in pursuit of short-term profit. We believe that building high-quality homes contributes to society and is a foundation pillar of the nation. This belief is a manifestation of *Kokudo Ho'on* or “repaying one’s debt to the land,” one of the key principles of the Sumitomo Spirit. And this is why we will always pursue quality that never betrays the trust and expectations of the customer, provide houses and services related to all aspects of housing at reasonable prices. Only in this way are we able to deepen and expand the support we receive from customers, and so we emphasize each and every one of these fundamentals in training our people and in building our organization.

We, the people of Sumitomo Forestry Group, will continue to engage in sustainable businesses, centered around wood, that support coexistence with the environment and enrich people’s lives around the world.

