

# Interview with the President



We are focused on expanding in growth fields such as the renovation business, while maintaining strong profitability in our core businesses.

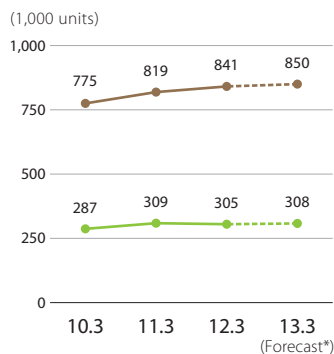
Akira Ichikawa,  
President / Representative Director

## ■ Fiscal 2011 (fiscal year ended March 31, 2012) consolidated results



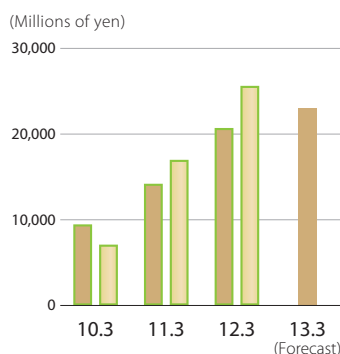
**Supported by robust conditions in the domestic housing market and measures to bolster earnings, the Group's performance was driven by our core businesses—new custom-built housing and timber and building materials—leading to an increase in both sales and profits.**

### Number of New Housing Starts in Japan



— New housing starts  
— Owner-occupied housing  
Source: Ministry of Land, Infrastructure, Transport and Tourism  
\* In-house estimate

### Recurring Income



■ Recurring income  
■ Excluding the effect of actuarial gains and losses

Despite concerns about the impact of the Great East Japan Earthquake on our business results, the domestic housing market remains buoyant and new housing starts in Japan increased 2.7% year on year to 841,000 units, which closely correlate with the performance of the Group's businesses. The growth was in part supported by a reduced-tax housing loan scheme, expansion of the tax-exemption scope of gift tax, and other government incentives to promote house purchases. Against this backdrop, and also reflecting the measures we have implemented to date to strengthen earnings, in fiscal 2011 consolidated sales increased 4.3% year on year to ¥831.9 billion, and consolidated recurring income rose 45.8% to ¥20.7 billion. There was an increase in personnel expenses, due to an actuarial difference in accounting for retirement benefit obligations, but excluding this factor recurring income increased 50.8% year on year to ¥25.6 billion, demonstrating the sharp improvement in profitability in our core business for the second consecutive year, which has been one of our top management priorities. While we recorded approximately ¥3.0 billion extraordinary loss due to impairment of fixed assets at overseas subsidiaries and other factors, overall performance was solid, including a 79.1% year-on-year increase in net income to ¥9.3 billion.

Within the housing business, there was a year-on-year increase in the number of houses sold in our core new custom-built housing business. In addition, increase in the unit price per house drove consolidated performance amid factors including a higher ratio of houses fitted with solar power systems and other types of environmentally sound equipment as awareness of energy conservation grows. In the renovation business too, sales increased steadily, by 15% year on year. Conditions were thus favorable in the housing business as a whole.

In the timber and building materials business, sales volumes in the domestic logistics operation rose owing to the increase in new housing starts and strengthened cooperation with trading partners. However, profits fell marginally short of the previous fiscal year's level due to a rise in raw materials prices affecting the domestic building materials manufacturing business.

In the overseas business, a loss was recorded, owing to difficult conditions facing the building materials manufacturing business in China and Australia as well as lack of

improvement in market conditions in the overseas housing business, which remained lackluster.

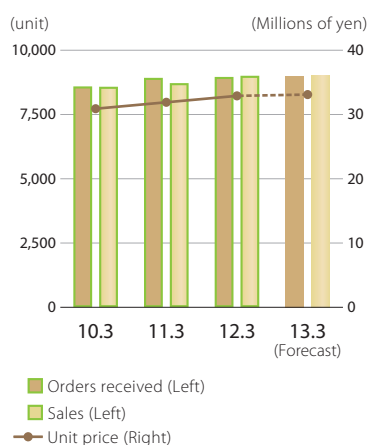
In the real estate business, the detached spec homes business was buoyant, despite difficult conditions in the real estate development business, leading to an increase in profits.

## ■ Business reorganization and outlook for consolidated performance in fiscal 2012 (fiscal year ending March 31, 2013)



**We are aiming for recurring income of ¥20 billion for the second consecutive year, by maintaining stable income through our core businesses, expanding the renovation business, and improving profitability in the overseas business.**

### Custom-Built Detached Homes Orders and Sales / Average Unit Price



Smart Solabo



Vina Eco Board Co., Ltd., which started commercial production of particle board in Vietnam

Our start-of-year fiscal 2012 assumptions are for new housing starts of 850,000 units, in line with the previous year's level, and for owner-occupied housing starts of roughly 310,000 units. Based on these assumptions, we forecast sales will rise 1.6% year on year in fiscal 2012 to ¥845.0 billion and recurring income will fall 10.3% to ¥23.0 billion (main businesses, excluding impact of amortization of actuarial difference for retirement benefits). Our goal is recurring income above ¥20 billion for the second consecutive year, although some decline is expected due to higher expenses as we invest in future growth. These forecasts for the domestic market environment do not factor in the impact of an increase in the rate of consumption tax, which is currently uncertain.

Anticipating future changes in the business environment, starting April 2012 the Sumitomo Forestry Group implemented a reorganization of its business structure in order to streamline Group management and achieve optimal allocation of management resources, strengthen profitability in our core businesses, and accelerate growth in the overseas and renovation businesses. The Group's business segments have been reorganized into four new segments: "timber and building materials business," "housing business," "overseas business" and "other businesses."

Our basic approach to performance this fiscal year is to secure stable income in our core operations, namely the timber and building materials business and the new custom-built house business, to expand the renovation business and to improve profitability in the overseas business, both of we view as key businesses.

In the timber and building materials business, we expect a modest fall in sales, primarily in imported plywood as of which demand increased in the previous fiscal year following the earthquake. In view of the expected contraction of the domestic housing market, in future we will promote domestic regional strategies including consolidation and strengthening of our logistics functions on a region-by-region basis, and global distribution strategies incorporating the integration of timber building materials procurement and sales, and expansion of our logistics business in the Pacific Rim region.

In the new custom-built housing business, we will work to meet the need for safe, secure and energy-efficient homes by expanding sales of high value-added housing products including our proprietary Big-Frame construction method and "Smart Solabo" smart houses. As a result of the above reorganization, most of the real estate business was transferred to the housing business segment, and we newly established a "Renovation & Leasing Section" to broadly meet the needs of the residential businesses, including remodeling, renovation, real estate brokerage, and real estate management. Our policy is to proactively expand our operations by taking the technologies and other expertise we have developed in the custom-built housing business and maximizing these in the detached spec homes business and the MOCCA (wood-use integration)\* business.

In the overseas business, we will work to urgently improve margins in unprofitable operations and accelerate growth in newly launched businesses, such as the particle board business in Vietnam.

\* MOCCA business:

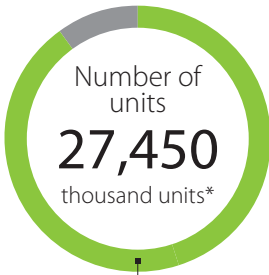
The collective name for our efforts in each business to increase applications for timber through greater use of wood construction and wood materials.

■ Growth strategy



In order to meet the wide range of home-related requirements, we are strengthening our initiatives in the established housing market, which has significant growth potential.

Detached Housing: Stock in Japan



Wooden housing more than **90%**

Approximately 10 million units of detached houses were built before the 1981 revision of the earthquake-resistance standards.

\* Source: Ministry of Internal Affairs and Communications, Housing & Land Survey (2008)

Currently, we are particularly focused on tackling the established housing market, where we envisage future growth. The stock of detached houses in Japan amounts to approximately 27 million units\*, at least 90% of which are constructed from wood. It is estimated that 10 million of these detached houses were built before the 1981 revision of the Building Standards Act, which tightened anti-seismic standards. In its "New Growth Strategy" formulated in 2010, the Japanese government set out its goal of expanding the size of the renovation market from the previous ¥6 trillion to ¥12 trillion by 2020. Since the Great East Japan Earthquake in 2011, the need for safe, earthquake-resistant, energy-efficient housing has been felt throughout society, and is rapidly increasing.

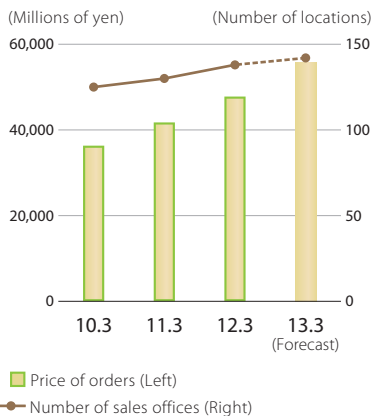
\* Source: Ministry of Internal Affairs and Communications, Housing & Land Survey (2008)

Under our *Reforest* renovation brand, the Sumitomo Forestry Group is developing operations to meet the wide-ranging demand for renovation of detached homes, condominiums and other buildings. We are particularly specialized in the renovation of traditional Japanese-style family homes, and we have built an extensive track record in this field. Recently, we have launched renovation package products and fixed-price products, and are working hard to offer our customers simple and clear renovation products with straightforward service content and pricing. In future, we aim to increase sales from the current ¥50 billion level to ¥100 billion and higher by enhancing our product and service offering and increasing the number of personnel, as well as through sales area expansion.

Most of the stock of domestic wooden housing was built using wooden post-and-beam construction method, and the Sumitomo Forestry Group boasts industry-leading technological capability and expertise in its construction methods. Utilizing the design capabilities, construction renovation technologies and brand strength we have cultivated in our custom-built detached housing business, we are well positioned to tap the wide-ranging demand potential in the established wooden housing market, including the renovation of used housing.

Renovation Business  
— Orders and Sales Offices

(Sumitomo Forestry Home Tech Co., Ltd.)



Renovation of a traditional Japanese-style house

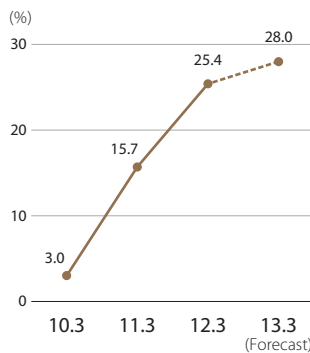


## ■ The Sumitomo Forestry Group's Technology



**We will expand our operations and contribute to society by maximizing the strengths of our proprietary technology.**

### Big-Frame Construction Method by Orders Received



\* Figures are based on the sum of units in orders received each fiscal year, less the amount of orders that were cancelled during the fiscal years.



3D vibration test at Tsukuba Research Institute



Seedlings cultivated from the DNA of the "Pine Tree of Hope"

Technology is essential to business growth. In the Sumitomo Forestry Group's broad array of research and technological development capabilities, one important example is the Big-Frame construction method. With the rise of consumer interest in earthquake resistance and safety, in fiscal 2011 sales of our housing products using the Big-Frame construction method grew dramatically. The Big-Frame construction method has outstanding earthquake resistance and durability, while also enabling open-plan spaces and design flexibility, allowing the house to be lived in for many years and passed on to future generations. We believe that the Group's product development, focused on advanced technology and the customer's needs, has won the approval of our customers. This technological advantage is difficult to discern, as the building's structural elements are hidden in the walls and ceiling, but our marketing activities have included "Construction Site Tours" to showcase the unseen details of technological competence in our construction that make the difference. We believe this has also been well received by our customers.

In the renovation business, we have also developed numerous proprietary technologies to ensure earthquake resistance and safety in houses. These technologies contribute to home safety and security in the established housing market, and are a significant strength driving the Group's growth. We will continue working to develop proprietary technologies in the renovation business, which we think will both have enormous appeal and lead to business expansion.

The Sumitomo Forestry Group carries out technological research and development related to housing and wood, primarily at the Tsukuba Research Institute located in the outskirts of Tokyo. We conduct ongoing research to explore the possibilities of wood, including the development of high value-added timber materials and research into biotechnology involving a wide range of tree species. In fiscal 2011, we cultivated and nurtured rare species of trees registered as natural treasures or in the World Cultural Heritage sites, including successful cultivation of seedlings from the "Pine Tree of Hope," the single surviving tree of the well-known *Takata-Matsubara* pine forest in the city of Rikuzentakata, Iwate Prefecture, which was devastated by the 2011 tsunami.

The Sumitomo Forestry Group will continue to conduct wide-ranging research and development activities, from forests through to housing and landscaping, in order to contribute to people's lives, society and forests. We believe this is our mission as we strive to be the world's leading forestry company.

#### Big-Frame construction method

A proprietary approach that offers earthquake resistance and floor plan flexibility.



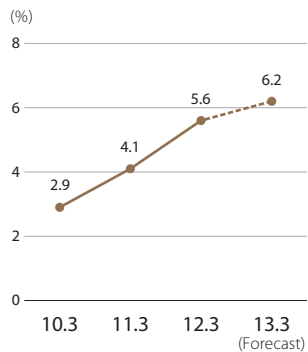


■ Dividends and Retained Earnings



**While maintaining a policy of stable, continuous dividend payment to our shareholders, we invest in growth fields and conduct R&D activities based on our long-term management plan.**

Return on capital employed (ROCE)



ROCE = Operating profit /  
 (Interest-bearing debt + Shareholders' equity)  
 [Operating profit = (Recurring income + Interest expenses) ×  
 (1 - Effective tax rate)]

The payment of returns to shareholders is one of our principal concerns and our basic policy is to pay a stable, continuous return. For fiscal 2011, we maintained the full-year dividend at ¥15 per share. We intend to use retained earnings to carry out effective investments and R&D activities in order to enhance corporate value. Going forward, we will continue working to improve our ability to generate earnings as reflected in 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 such as our business fundamentals, financial condition, and investment plans.

In the aftermath of the Great East Japan Earthquake, I feel that corporate social responsibility and the approach to business has never been so questioned. Our stance on contributing to society and the global environment, which we have maintained for more than 300 years, remains unchanged. In March 2012, we enacted “the Sumitomo Forestry Group Declaration of Biodiversity” to address the goals set out by the Tenth Conference of the Parties (COP10) to the Convention on Biological Diversity.

Wood is an essential resource for the Earth and humans: as well as its excellence as a material, forests serve the public good and make an important environmental contribution in the way that they absorb and sequester carbon dioxide. I believe that the Sumitomo Forestry Group, which has developed a wide range of housing-related businesses focused on wood, is uniquely positioned in being able to aim simultaneously to contribute to society and the global environment, and grow as a company. Moving forward, we intend to meet the expectations of all stakeholders as a company with high value-added businesses that win the approval of people and society, by maximizing our unique strengths and never fearing change.

