



Annual Report 2008

(Year ended March 31, 2008)

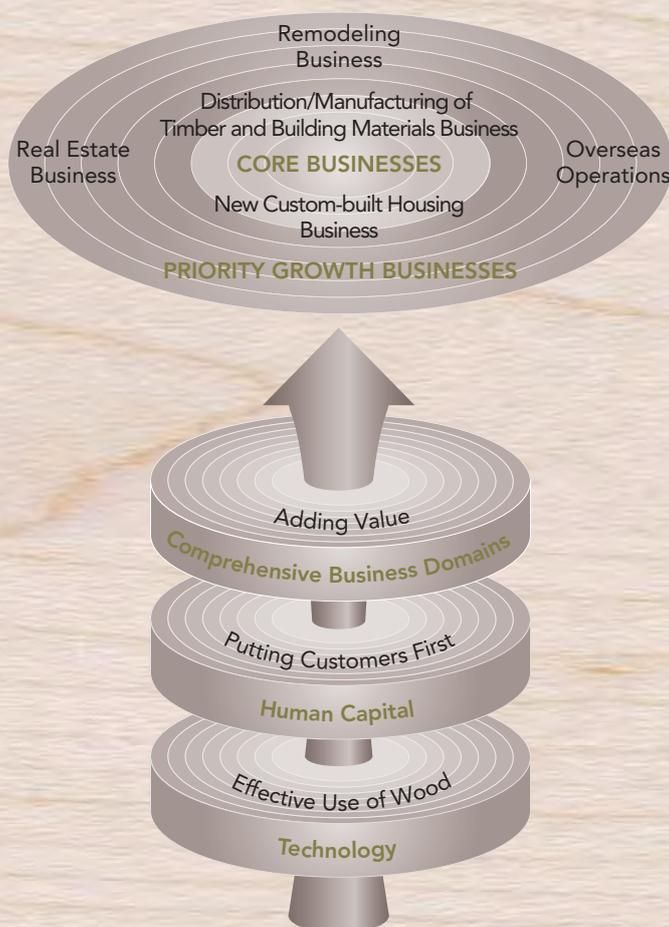


Total Housing and Living-related Company For Wood-based Housing Environments

Sumitomo Forestry was established by the Sumitomo Family in 1691 in conjunction with the opening of the Besshi copper mine to manage the forest surrounding the mining operation. Since then, the Company has evolved in partnership with “mountains” and “wood.” Utilizing the natural material of wood, we have expanded our business domains in our quest to realize a prosperous society.

Today, with our forestry business as the foundation, we are advancing our operations as a “total housing and living-related business” encompassing distribution and manufacture of timber and building materials, design and construction of custom-built wooden housing, remodeling, real estate distribution and management, greenery business, and overseas operations.

Comprehensive Strength

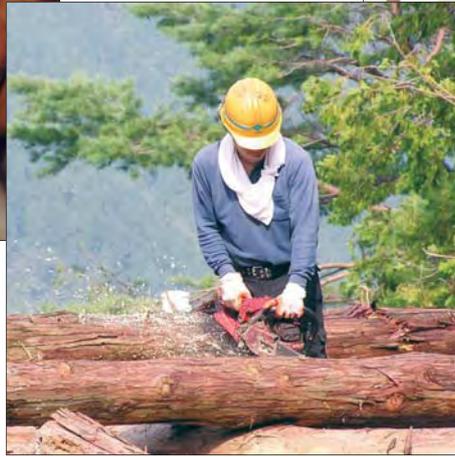
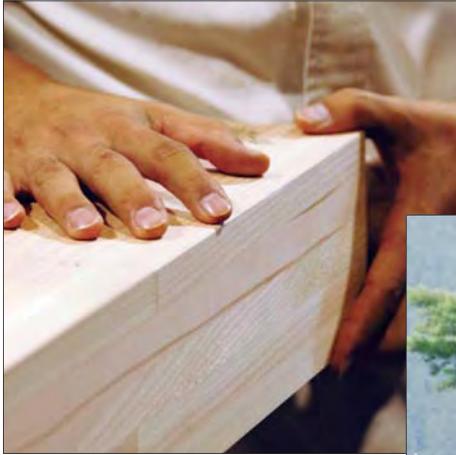


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Forward-looking Statements

Statements in this annual report with respect to Sumitomo Forestry's plans, strategies, and objectives as well as other statements that are not historical facts are forward-looking statements based on management's assumptions and beliefs formed in the light of information available as of the production of this report. Actual results may differ from those discussed in these forward-looking statements owing to the impact of various factors, including but not limited to changes in the business environment, general economic conditions, and customer preferences.



THE WOOD PROFESSIONALS

With our foundation in the forestry business, we have a history spanning more than 300 years.

During this time, we have amassed knowledge and technological expertise
in using wood to enhance living environments.

Today, we have access to a domestic timber, including company-owned forests.

In addition, we have built a network enabling us to procure timber and
building materials from around the world.

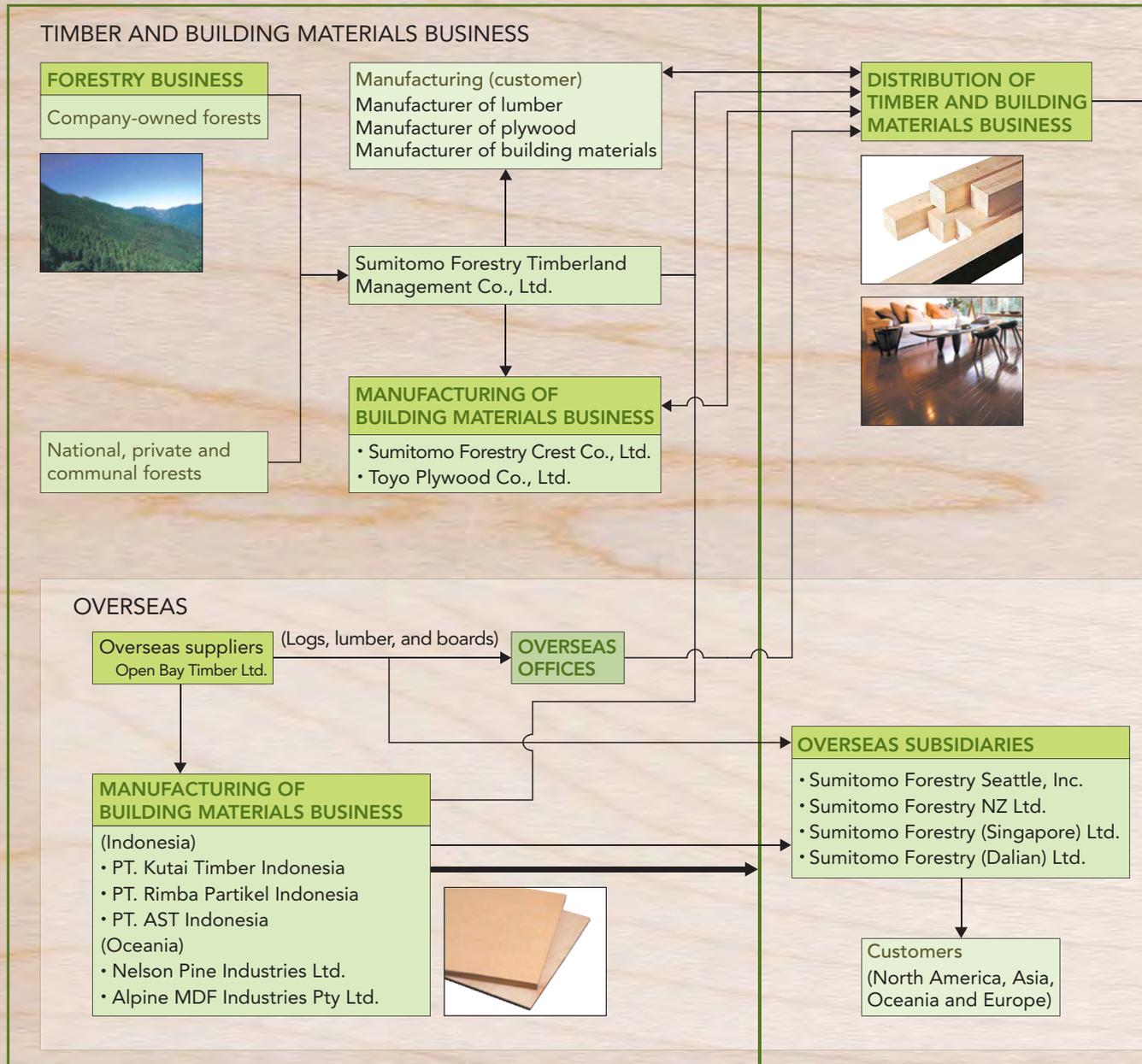
By maximizing the potential of wood in diverse ways, we have become a group of
“wood professionals” committed to providing more comfortable living environments.

OUR COMPREHENSIVE STRENGTH —VALUE CHAIN—

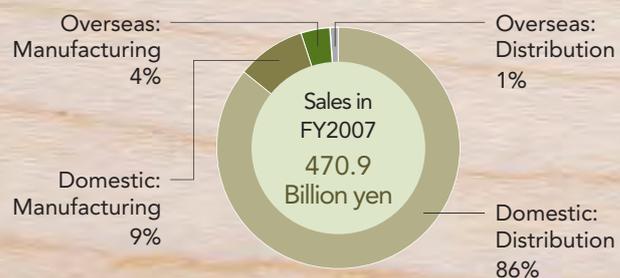
Based on our expertise in the profession related to the gift of nature “wood” and to providing “housing” which enriches quality of life, The Sumitomo Forestry Group is building a value chain that can meet all needs.

UPSTREAM: MANUFACTURING AND SUPPLY OF MATERIALS

MIDDLESTREAM: DISTRIBUTION AND SALES

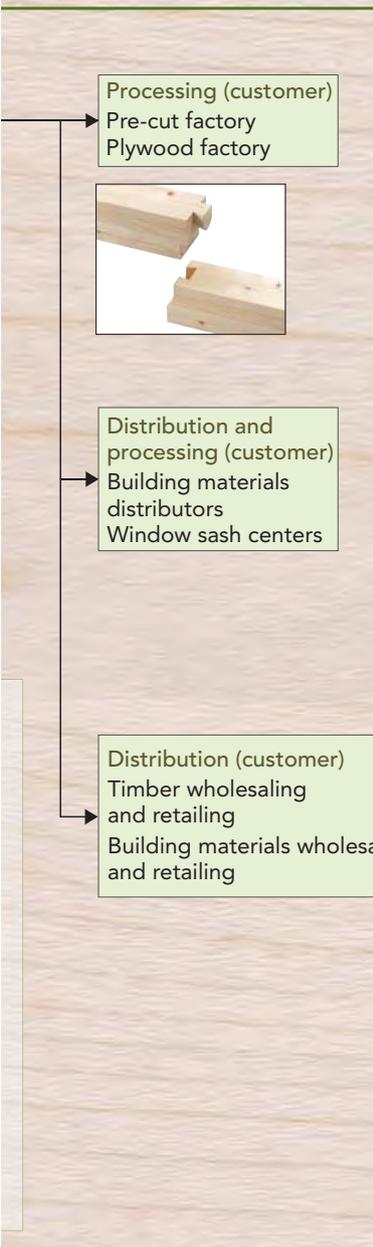


Sales Share of Timber and Building Materials Business



Note: Figures for each segment include inter-segment transactions.

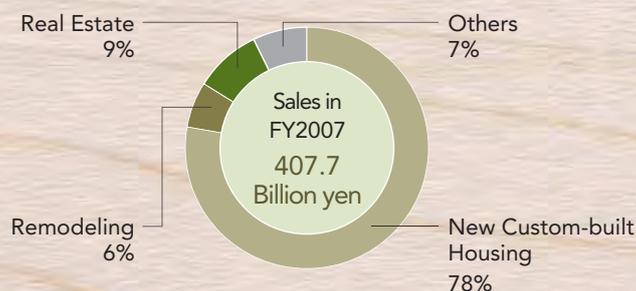
UPSTREAM: LOG PROCESSING



DOWNSTREAM: CONSUMER BUSINESS



Sales Share of Housing and Housing-related Businesses



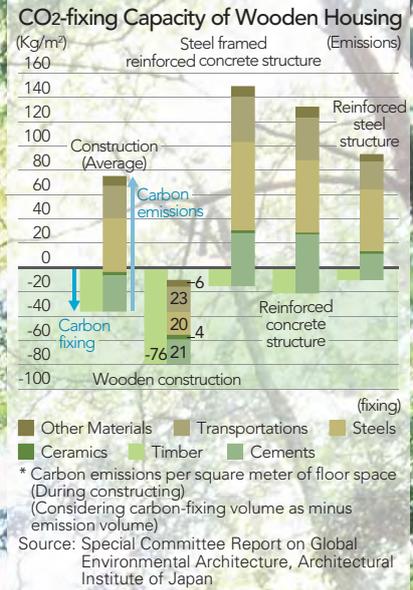
THE WOOD PROFESSIONALS

The Sumitomo Forestry Group owns and manages around 40,000 hectares of forest, equivalent to around one-thousandth of Japan's total land area. In addition to absorbing carbon dioxide, our forests play a variety of beneficial functions, such as preventing soil erosion, cultivating water sources, and protecting life forms. Even after wood becomes a processed timber product, it continues making a contribution in wooden housing, by fixing carbon dioxide* and preventing global warming.

Our integrated business activities cover nurturing of trees as a renewable natural resource, processing timber products, and building houses. Through these activities, we create value from economic, social, and environmental perspectives.

* Fixing carbon dioxide: Storing absorbed carbon dioxide in the form of carbon.

Wooden Housing: High Level of Fixed Carbon, Low Level of Emissions



Nurturing Trees, Processing Timber, Building Houses





The world's forests are declining at the rate of 7.3 million hectares per year*. In this context, we utilize plantation timber for part of our raw materials. At the same time, we are accumulating knowledge about forestation and utilization of tree species that grow quickly and homogeneously. In Indonesia, we have built a sustainable procurement base in the form of a "social forestry."** In New Zealand and Australia, meanwhile, we produce Medium Density Fiberboard (MDF) using 100% plantation timber. In fiscal 2007, we purchased a renewable plantation property in Papua New Guinea. In these ways, we are advancing our environmentally friendly timber and building materials manufacturing business on a global scale.

* Source: The Global Forest Resources Assessment 2005, Food and Agriculture Organization (FAO)

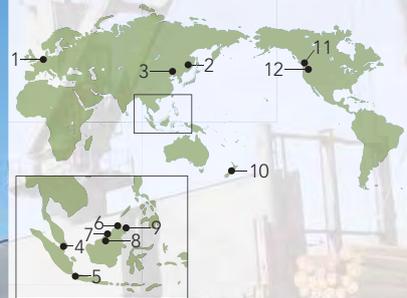
** Social forestry: A program in which forestation seedlings are given to local farmers and others, who subsequently plant them around their lands and raise them into fully grown forests, from which wood is later purchased. It offers the twin benefits of promoting forest resources and energizing regional economies.

Globally Advancing Our Timber and Building Materials Manufacturing Business Based on Plantation Timber



We have timber and building materials distribution and manufacturing operations in various locations, centering on Pacific Rim countries. We are particularly proud of our position in Japan, where we have an unparalleled record in handling these products. By using our network as the leader in the domestic market, we gather the latest information on market needs in various world nations and provide feedback to our manufacturing operations. This enables us to swiftly develop the right products and compile a portfolio of optimal, high-quality products in a stable, well-planned manner.

Our Overseas Distribution



- | | |
|------------------|---------------|
| 1. Amsterdam | 7. Mili |
| 2. Khabarovsk | 8. Sibiu |
| 3. Dalian | 9. Tawau |
| 4. Singapore | 10. Nelson |
| 5. Jakarta | 11. Vancouver |
| 6. Kota Kinabalu | 12. Seattle |

No.1 Domestic Trader of Timber and Building Materials





For our mainstay "MyForest" product range, we use the "Multi-Balance Construction"* method, based on technologies developed in-house. This method provides a robust structural balance across the base, floor, posts, and walls that disperses shaking caused by earthquakes. It also makes for a structural frame that takes full advantage of the strengths of timber with respect to resisting deformation or contortion. In addition to state-of-the-art technologies, we seek to provide "ideal housing spaces" for customers. To this end, we have a flexible design system in which architects with special expertise in wood meet the demands of customers with millimeter-degree precision.

* Multi-Balance Construction: An integrated system of posts, beams, and panels that prevents excessive stress from accumulating at joints and limits the structural deformation or contortion caused by strong external forces, such as a large earthquake or destructive storm. The building structure is further strengthened by the panels themselves, which provide additional reinforcement if structural contortion were to occur.

Providing Authentic Custom-built Housing with Special Expertise in Wood



FINANCIAL HIGHLIGHTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars*1
	2008	2007	2006	2005	2004	2008
Operating Results:						
Net sales and contract revenues	¥ 861,357	¥ 911,674	¥791,128	¥723,193	¥673,779	\$ 8,613,565
Gross profit	135,277	141,117	127,853	125,582	120,778	1,352,768
Selling, general and administrative expenses (SG&A expenses)	128,041	120,711	112,407	107,116	103,201	1,280,414
Capital investment	11,494	9,026	10,443	9,237	6,392	114,944
Operating income	7,235	20,405	15,446	18,466	17,577	72,354
Recurring income*2	7,659	21,259	16,800	18,692	17,074	76,589
Net income	1,115	11,954	10,842	8,014	9,870	11,149

Financial Position:

	2008	2007	2006	2005	2004	2008
Total assets	450,730	500,136	464,193	370,684	369,755	4,507,300
Interest-bearing debt	25,816	25,739	22,067	15,580	19,929	258,160
Total net assets*3	173,089	188,855	175,206	152,500	146,269	1,730,886

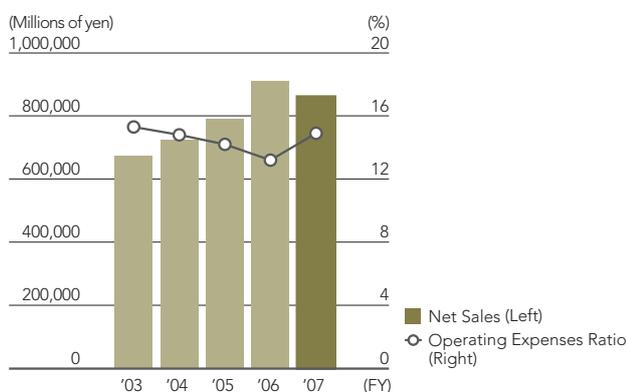
Cash Flows:

	2008	2007	2006	2005	2004	2008
Cash flows from operating activities	26,106	7,084	16,626	6,685	25,962	261,058
Cash flows from investment activities	(17,587)	(7,102)	(8,998)	(12,895)	(7,646)	(175,868)
Cash flows from financing activities	(4,262)	665	(14,039)	(7,087)	(735)	(42,619)

Per Share Data:

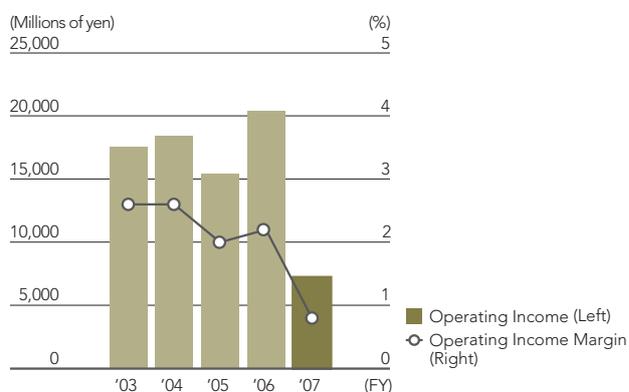
	Yen					U.S. dollars*1
Net income	¥ 6.29	¥ 67.43	¥ 61.28	¥ 45.28	¥ 55.81	\$ 0.06
Net assets	975.99	1,059.20	996.03	866.47	830.50	9.76
Cash dividends	15.00	15.00	13.00	13.00	13.00	0.15

Net Sales and Operating Expenses Ratio



Note: Operating Expenses Ratio = SG&A Expenses / Net Sales and Contract Revenues

Operating Income and Operating Income Margin



Operating Income and Operating Income Margin: Operating income fell 64.5%, and the operating income margin slipped 1.4 percentage points. This was due to worsening conditions in the timber and building materials distribution market, as well as rising prices of raw materials and actuarial differences related to the Company's retirement benefit obligations.

	%				
	2008	2007	2006	2005	2004
Financial Ratios:					
Operating income margin	0.8	2.2	2.0	2.6	2.6
Return on assets (ROA) ^{*4}	1.6	4.4	4.0	5.0	4.7
Return on equity (ROE) ^{*4}	0.6	6.6	6.6	5.4	7.2
Equity ratio	38.4	37.5	37.7	41.1	39.6
Interest-bearing debt ratio ^{*5}	13.0	12.1	11.2	9.3	12.0
Units					
State of Orders (on a unit basis):					
Custom-built detached housing	9,301	9,751	9,251	10,076	10,529
Collective housing	683	1,455	1,288	1,776	1,655
State of Sales (on a unit basis):					
Detached housing	9,526	9,645	9,807	10,319	10,542
Collective housing	1,064	1,445	1,082	1,571	1,266
Number of employees	12,541	12,259	11,997	10,477	10,418
Reference Market Data:					
New housing starts (nationwide)	1,035,598	1,285,246	1,249,366	1,193,038	1,173,649
New housing starts (Tokyo metropolitan district)	338,286	431,200	432,005	419,088	422,750
Owner-occupied housing starts (nationwide)	311,803	355,700	352,577	367,233	373,015

Notes: 1. Japanese yen amounts have been translated into U.S. dollar amounts, for the reader's convenience only, at the rate of ¥100 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2008.

2. Recurring income = Operating income + Non-operating income – Non-operating expenses

Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, loss on devaluation of property, plant and equipment, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.

3. Total net assets are presented following enforcement of the Japanese Corporate Law in 2006. Total net assets are comprised of the sum of shareholders' equity as previously defined and minority interest and gains (losses) on deferred hedges.

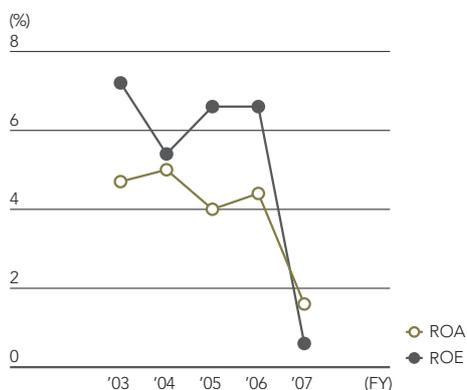
4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income / Shareholders' equity

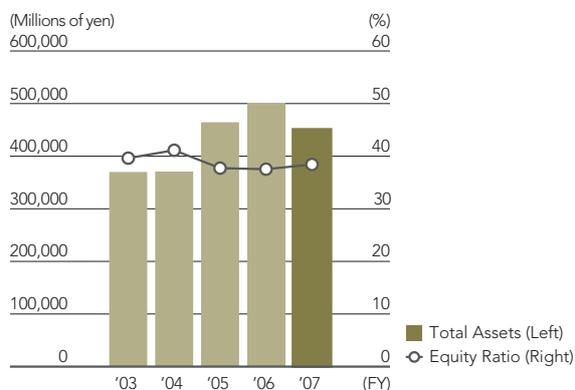
5. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

ROA and ROE



ROA and ROE: Return on assets declined 2.8 percentage points in the wake of a 64.0% decline in recurring income. Net income plummeted 90.7%, due partly to a loss on devaluation of investment securities which was valued at 3.8 billion, causing a 6-percentage-point fall in return on equity.

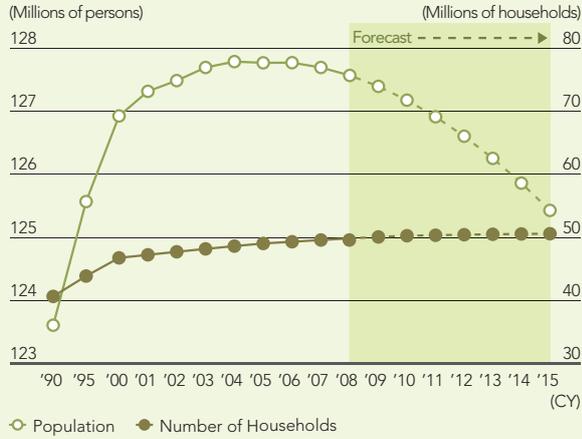
Total Assets and Equity Ratio



Total Assets and Equity Ratio: Total assets declined 9.9% year-on-year, due to a ¥46.3 billion fall in notes and accounts receivable accompanying the decrease in revenues, as well as to a ¥23.7 billion fall in investment securities stemming from impairment accounting. By contrast, the equity ratio grew 0.9 percentage point, to 38.4%.

MARKET DATA

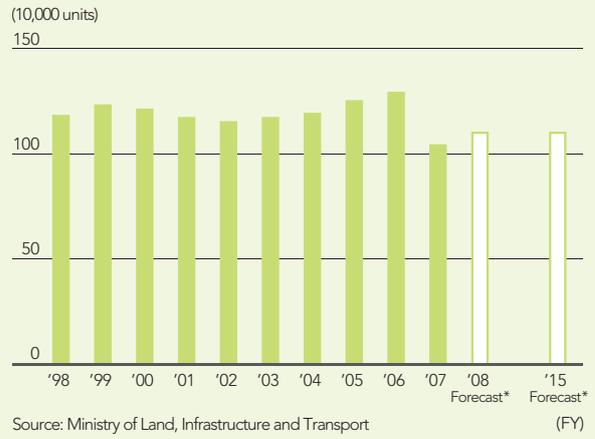
Population and Number of Households



Source: "Population Statistics of Japan 2008", and "Forecast for number of households" published by the National Institute of Population and Social Security Research

Due to its low birthrate and aging population, Japan's total population has been in decline since reaching a peak of 127.83 million people in December 2004. Long-term forecasts increasingly point to the Japanese population falling below the 100 million mark. Given the slow pace of this population decline, however, the number of households is expected to remain steady for some time to come.

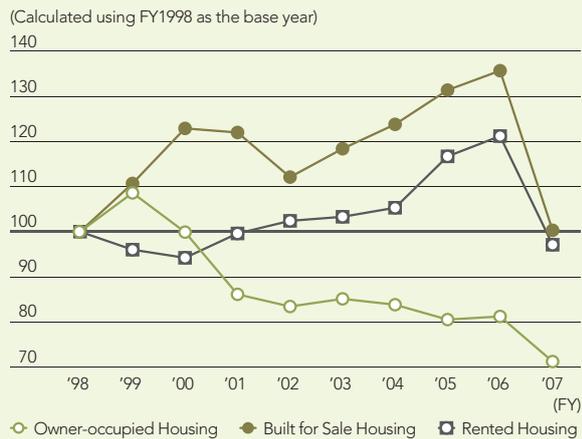
Forecast for New Housing Starts



Source: Ministry of Land, Infrastructure and Transport (FY)
* In-house estimate

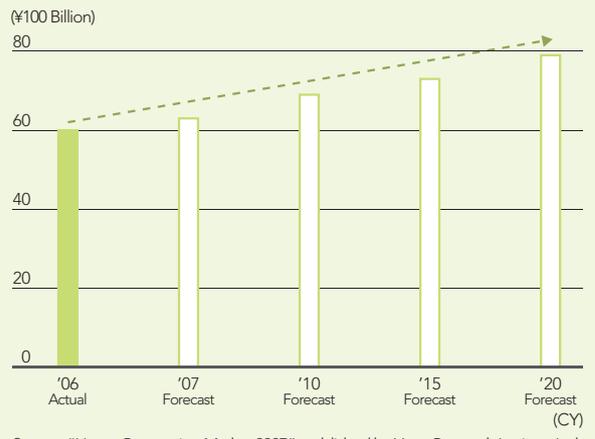
In fiscal 2007, Japan recorded a fall in the number of new housing starts for the first time in five years. The decline was due to a significant slump in condominium and other large-scale residential building starts stemming from an amendment to the Building Standards Law. The anticipated rebound in housing starts in fiscal 2008 is likely to be restricted by deteriorating economic conditions and a rise in the price of daily commodities. However, factors such as the steady number of households suggest that total housing starts will remain at around the 1.0 million level for the foreseeable future.

Housing Starts Index by Housing Type



In fiscal 2007, the enactment of the amended Building Standards Law saw a decline in the number of owner-occupied, built-for-sale, and rented housing starts. The number of owner-occupied housing starts, which is closely related to our core business segment of new custom-built housing, has been in decline since 2000. The sizeable drop in owner-occupied housing starts recorded in fiscal 2007 stemming from the amended Building Standards Law is, however, expected to be temporary.

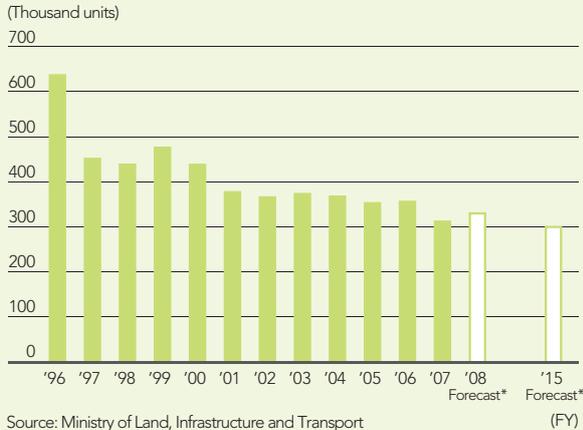
Remodeling Market Forecast



Source: "House Renovation Market 2007", published by Yano Research Institute Ltd.

Since the majority of Japan's current housing stock was constructed prior to 1980, there are still many wooden houses that do not meet the earthquake resistance standards introduced in 1981. With growing demand for safe housing, the remodeling market is expected to grow in the medium term as the number of households peaks and society approaches a turning point for housing stock.

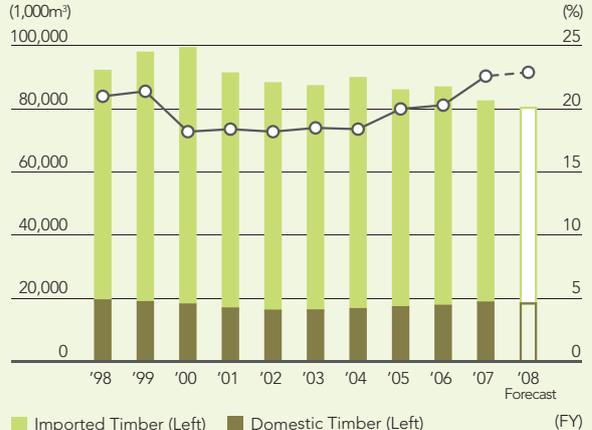
Owner-occupied Housing Demand



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

In light of the continuing decline in population, over the long term we can expect to see a gradual reduction in demand for owner-occupied housing. However, as illustrated in the government's "200 Year Housing Vision," there is increasing demand for safe and high-quality housing. Although the decline in overall demand for owner-occupied housing will have a considerable impact on the majority of home builders, we believe that the Company will be relatively unaffected by this trend because of its focus on high-quality housing products.

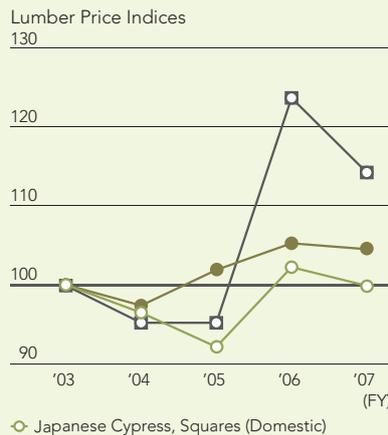
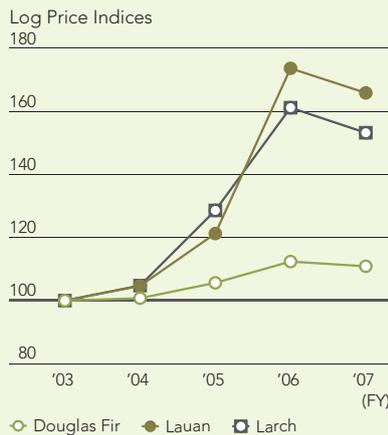
Domestic Demand for Timber



Source: Forestry Agency

The state of Japan's housing market is reflected in sluggish growth in domestic demand for timber. However, we are seeing a move away from overdependence on imported timber, previously caused by price and supply-related factors, to a gradual shift toward the use of domestic timber. This is due to growing recognition of the importance of a sustainable forestry, coupled with other factors, including import costs and import restrictions. As a result, Japan's self-sufficiency ratio in timber is rising despite little prospect of growth in overall demand.

Timber and Building Materials Market (Calculated using FY2003 as the base year)

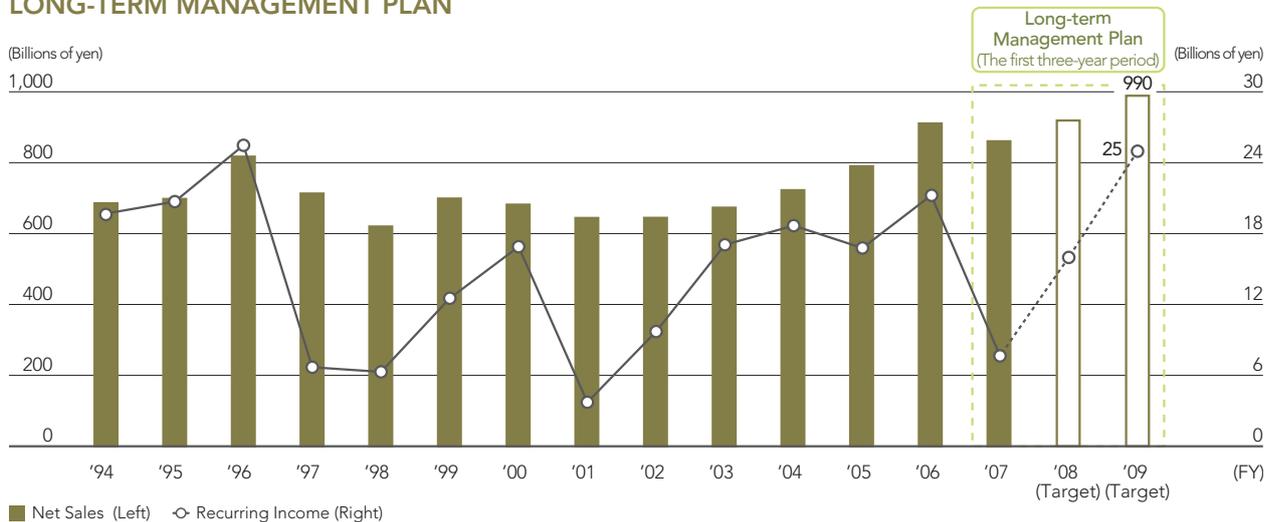


In fiscal 2006, prices for timber and wooden boards rose sharply in Japan and around the world as demand grew from the rapidly expanding economies of China and other emerging nations. In fiscal 2007, however, plywood prices plummeted due to a dramatic change in the market caused by the historic fall in new housing starts. The rapid deterioration in market conditions, combined with soaring prices for raw materials, has had a negative effect on the Company's earnings. On a positive note, however, the plywood market has already bottomed out.

VISION: LONG-TERM MANAGEMENT PLAN

The Sumitomo Forestry Group is currently advancing its operations according to its long-term management plan, "Project SPEED."* This plan outlines the Group's future direction and incorporates its goals for the 10-year period from April 2007 to March 2017.

LONG-TERM MANAGEMENT PLAN



* Meaning of Long-term Management Plan, "Project SPEED"

SPEED reflects the Group's commitment to swiftly implementing the goals set out in the plan.

It serves as an acronym for:

"**S**trong **P**assion **E**nables us to become an **E**xcellent company by implementing **D**etailed strategy."

Future Business Environment

- The owner-occupied housing market has the greatest impact on the Sumitomo Forestry Group's business performance. In the future, we expect this market segment to contract due to declines in the population and the number of households.
- We envisage significant business opportunities for remodeling and real estate business. The market for remodeling is steadily expanding thanks to growth in housing stock and improving longevity of houses. In the real estate industry, meanwhile, methods of delivering added value through services and other intangible means are diversifying.
- Looking worldwide, we expect the economies of the BRICs to continue to grow high, while the economies of the United States and the European Community will also be healthy in the long-term view. In addition, there is rising demand for natural resources, which is related to environmental issues. Therefore, we anticipate growing demand and diversifying uses for timber and building materials on a global scale.

Business Concept

Core businesses: "Distribution/Manufacturing of Timber and Building Materials Business" and "New Custom-built Housing Business"

Priority growth businesses: "Overseas Operations," "Real Estate Business," and "Remodeling Business"

Numerical target

Fiscal 2009: Net sales: ¥990 billion
Recurring income: ¥25 billion

Fiscal 2016: Net sales: ¥1,600 billion
Recurring income: ¥80 billion

FORMULATION OF LONG-TERM MANAGEMENT PLAN

Shift to Business Structure with Diversified Income Sources

Since commencing operations in the forestry business, the Group has advanced into various businesses related to wood and housing. Due to the nature of our business structure, however, our profitability is easily swayed by trends in the owner-occupied housing market. This is because our two core businesses—"Distribution/Manufacturing of Timber and Building Materials Business" and "New Custom-built Housing Business"—account for more than 90% of the Group's earnings. Under "Project SPEED," therefore, we will seek to diversify our

income sources by fostering and reinforcing businesses that enable us to demonstrate our competitive strength as a Group, while generating synergies with our core businesses. Specifically, we will further reinforce the earnings power of our two core businesses, which we have positioned as generators of stable cash flows. At the same time, we will focus our managerial resources on nurturing three other businesses—"Overseas Operations," "Real Estate Business," and "Remodeling Business"—which we have positioned as priority growth businesses. Here, our aim is to create third and fourth income pillars to complement our core businesses.

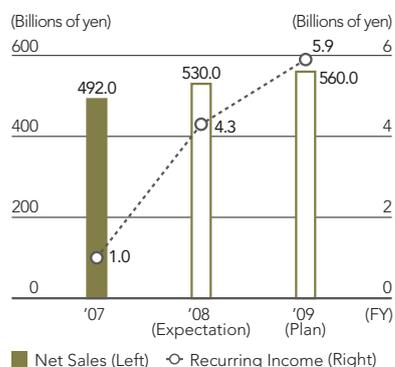
LONG-TERM MANAGEMENT PLAN (THE FIRST THREE-YEAR PERIOD): BASIC POLICIES AND FISCAL 2007 INITIATIVES

Core Businesses

Distribution/Manufacturing of Timber and Building Materials Business

In addition to earning commissions as a trader of timber and building materials, we will work to build a comprehensive value chain covering the distribution of the products we handle. We will take aggressive measures to stimulate the industry, including by providing managerial support if required, in our role as industry leader.

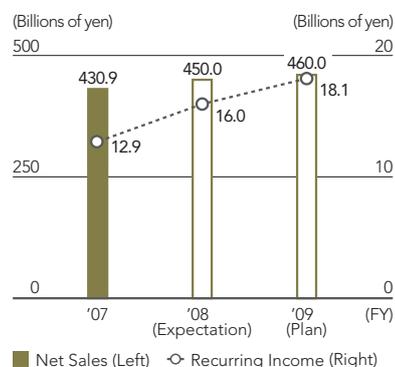
In fiscal 2007, we contributed to 40% to the establishment of a "Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries." By providing managerial support in this way, we stepped up efforts aimed at stimulating the industry.



New Custom-built Housing Business

Deploying our design and wood-related consulting capabilities, we are pursuing the building of high quality houses with a top priority on the satisfaction of our customers. We are also working to maximize synergies and enhance efficiency by creating a sales system that is united with our apartment business.

In fiscal 2007, we expanded our product variation with the release of new items. For example, we launched a flagship product with principle structural members made 100% from domestic timber. We also unveiled a product targeting first-time buyers, as well as other product for all-electricity-powered home with solar electricity system.



Priority Growth Businesses

Overseas Operations

Our strategy is to manufacture wooden building materials using plantation timber to promote stable supply to world-wide sales destinations and environmentally friendly proposals. As for priority markets for wooden building materials and new markets for detached housing, we are targeting Pan Pacific countries such as South Korea, China and Australia in addition to the United States. At the same time, we will actively invest in reforestation to get hold of logs.

In fiscal 2007, we embarked on a land development and improvement project in the United States and started developing detached spec homes business in Australia.

Real Estate Business

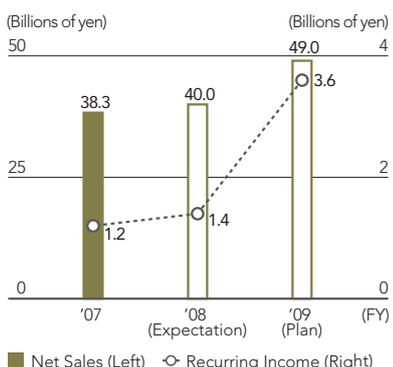
In this business, our strategy is to purchase land and add value by constructing rental properties, condominiums, or income-producing buildings, such as private pay nursing homes. We then operate or sell the completed projects. In our detached spec homes sales business, we sell high-value properties targeted mainly at first-time buyers in peripheral urban areas.

In addition to selling detached spec homes, in fiscal 2007 we expanded our real estate business in several ways. These included taking on a private finance initiative (PFI) project, entering the condominium sales business, and constructing housing and other facilities for elderly people.

Remodeling Business

In the remodeling business, we address wide-ranging demand from owners of homes built by both Sumitomo Forestry and other companies with traditional construction methods. Our strategy is to tap into latent demand by our technical skills in earthquake resistance, building durability, and other areas and by deploying our amassed design expertise gained through many years of experience in the custom-built housing business.

In fiscal 2007, we increased the scope of our remodeling business by opening three new sales offices and employing more staff. We also held numerous events at construction sites aimed at attracting new customers.



TO OUR STAKEHOLDERS



Ryu Yano President / Director

The Sumitomo Forestry Group is currently implementing its long-term management plan, “Project SPEED.” The aims of the plan are to reinforce the earnings power of existing businesses and nurture new businesses into mainstay pillars of our operations, in order to achieve sustainable growth in the future. In other words, we will complement the stable earnings foundations of our core businesses—Distribution/Manufacturing of Timber and Building Materials Business, and New Custom-built Housing Business—by expanding the growth foundations of our priority growth businesses. In these ways, we will build a well-balanced business portfolio and a solid earnings base.

REVIEW OF FISCAL 2007 RESULTS Importance of Well-balanced Earnings Structure Reaffirmed

In fiscal 2007, the Group launched its new long-term management plan, entitled “Project SPEED.” The goals of the plan are to broaden our earnings foundation and shift to a business structure capable of generating sustained growth amid a shrinking domestic market for owner-occupied housing.

Unfortunately, the housing market in fiscal 2007 faced unprecedented difficulties as new housing starts fell 19.4% year-on-year, to 1.03 million, while owner-occupied housing starts slipped 12.3%, to 0.31 million. This was due to economic uncertainty and concerns about the future, as well as the impact of an amendment to the Building Standards Law. A collateral result was a breakdown in the balance of supply and demand in the timber and building materials market, and to make matters worse, rising prices of raw materials for custom-built wooden housing placed downward pressure on earnings. To be honest, the Sumitomo Forestry Group’s business structure is heavily

weighted toward owner-occupied housing starts. In other words, in the year under review we reaffirmed the need to break away from our current earnings structure, which is excessively dependent on our two core businesses.

In fiscal 2007, the Group reported consolidated net sales of ¥861.4 billion, down 5.5% from the previous year. Operating income declined 64.5%, to ¥7.2 billion, and recurring income fell 64.0%, to ¥7.7 billion, due to the decrease in revenue combined with the effect of actuarial differences related to retirement benefit obligations and other factors. Even excluding such actuarial differences, operating income would have fallen 36.4%, to ¥11.8 billion, and recurring income would have dropped 37.0%, to ¥12.2 billion—significant declines in any event. Net income for the year plummeted 90.7%, to ¥1.1 billion, due partly to a ¥3.8 billion loss on devaluation of investment securities.

Overview of Segment Results

Timber and Building Materials Business
Sales –9.5%, Operating Income –58.2%

Sales in the Timber and Building Materials Business segment

Income Plan by Business Segment (Long-term Management Plan; The First Three-year Period)

(Billions of yen)

		Net Sales and Contract Revenues				Recurring Income			
		FY2009 Plan	FY2007 Actual	Change	%	FY2009 Plan	FY2007 Actual	Change	%
Core Business	Distribution / Manufacturing of Timber and Building Materials Business	560.0	492.0	+68.0	+13.8%	5.9	1.0	+4.9	+490.0%
	New Custom-built Housing Business	460.0	430.9	+29.1	+6.8%	18.1	12.9	+5.2	+40.3%
Priority Growth Business	Overseas Operations	49.0	38.3	+10.7	+27.9%	3.6	1.2	+2.4	+200.0%
	Real Estate Business	79.0	48.3	+30.7	+63.6%	2.1	0.5	+1.6	+320.0%
	Remodeling Business	31.0	26.6	+4.4	+16.5%	0.6	0.3	+0.3	+100.0%
	Elimination and/or Corporate	(189.0)	(174.8)	(14.2)	—	(5.3)	(8.4)	(3.1)	—
	Total	990.0	861.4	+128.6	+14.9%	25.0	7.7	+17.3	+224.7%

declined 9.5% year-on-year, to ¥470.9 billion, and operating income dropped 58.2%, to ¥3.3 billion. In Japan, the enactment of the amended Building Standards Law caused housing starts to decline, leading to a slump in demand and a fall in sales prices of timber and building materials. The market for plywood, which in the previous year saw sharp price increases, softened suddenly in the year under review, impacting both the distribution and manufacturing sides of the business to a degree unseen in recent years.

Overseas, our medium density fiberboard (MDF) manufacturing business, which we have been developing in Australia and New Zealand, continued reporting stable production and sales thanks to healthy demand in Japan, Oceania, and Asia, thus contributing to overall segment earnings.

Housing and Housing-related Businesses Sales -0.1%, Operating Income -47.0%

In the housing business, we promoted sales of high-value-added products, enabling us to raise the average unit sales value, up to 1.9% to ¥31.5 million. Despite a decline in the number of sales units, therefore, total sales in the Housing and Housing-related Businesses segment remained mostly unchanged, down just 0.1%, to ¥407.7 billion. However, we were unable to offset surging prices of construction materials through cost-reduction efforts. Accordingly, segment operating income declined 47.0%, to ¥8.8 billion.

In the New Custom-built Housing business, the number of orders received decreased 4.6%, to 9,301 units, due to depressed individual incomes and the deteriorating economic outlook. However, the apartment business, which we now operate as part of the custom-built detached housing business, generated a year-on-year

increase in orders, as did the spec homes business, which has been expanding its operational scale and area.

OUTLOOK FOR FISCAL 2008 Sharp Profit Turnaround Despite Difficult Conditions

Since the beginning of fiscal 2008, the timber and building materials market has bottomed out and is showing signs of stabilizing. However, the prices of metals and crude oil have kept rising, leading to higher prices of daily commodities. Due also to growing concern about economic slowdown, the recovery in housing starts is not expected to be strong, and the owner-occupied sector will recover only to about the 0.33 million unit level.

Facing these challenges, we have embarked on a new long-term management plan, entitled "Project SPEED," which calls for reforms to create a robust business structure to withstand changing business conditions. Specifically, we will reinforce our two core businesses (Distribution/Manufacturing of Timber and Building Materials Business and New Custom-built Housing Business), which generate stable earnings, while expanding our presence in priority growth businesses. In this way, we will create a well-balanced business portfolio and build a solid earnings foundation.

As stated earlier, the Sumitomo Forestry Group faces a business environment of unexpected difficulty. We have revised our recurring income projection for fiscal 2009, the third year of "Project SPEED" and the final year of the first three-year period, to ¥25.0 billion, down from ¥32.0 billion, based on envisaged business conditions in the years ahead. In fiscal 2008, we project a 6.8% year-on-year increase in net sales, to ¥920.0 billion. In addition, we have resolved the factors especially, occurred in fiscal 2007 caus-

ing downward pressure earnings, and we have renewed our cost-cutting efforts. Therefore, we forecast operating income of ¥16.0 billion (up from ¥7.2 billion in fiscal 2007) and net income of ¥9.0 billion (up from ¥1.1 billion).

FUTURE POLICIES

Raise Profitability of Core Businesses

Guided by “Project SPEED,” we will concentrate on strengthening its core businesses while expanding and nurturing its priority growth businesses. To this end, in our core businesses—Distribution/Manufacturing of Timber and Building Materials Business and New Custom-built Housing Business—we will seek to raise efficiency and boost profitability through a rigorous reassessment of costs, in order to generate stable earnings even in the face of changing future business conditions. As a prerequisite to this initiative, we will allocate the necessary managerial resources for our priority growth businesses, which will become mainstay profit pillars in the future.

Distribution/Manufacturing of Timber and Building Materials Business

In the Distribution of Timber and Building Materials Business, we will implement more meticulous inventory management by gaining an accurate grasp of actual demand and making purchases accordingly. To raise average earnings per employee, we will reallocate human resources along product lines. As the pace of realignment of the domestic distribution sector increases, meanwhile, we will demonstrate our strengths as industry leader in an effort to boost the growth potential of the entire sector, while also raising our market share. In addition, we will fully utilize our international network to expand our share in the global market. This will enable us to overcome challenges, including the scheduled increase in export tariffs on Russian logs (to 80%) in January 2009.

In the Manufacturing of Building Materials Business, we will establish manufacturing bases to make most effective use of plantation timber, domestic timber,

and timber waste. In these and other ways, we will work to advance our operations in an environmentally friendly manner, both in Japan and overseas.



New Custom-built Housing Business

Growing worldwide awareness about environmental issues serves to highlight the increasingly superior advantages of wooden housing in terms of fixing carbon dioxide and reducing environmental impact. In addition to providing the comfort of wooden housing, we are seeking to expand the market share using the “environment” keyword. Utilizing our strong brand and credibility, we will boost our market share by building houses featuring excellent designs and high-quality materials that deliver a high level of customer satisfaction. At the same time, we will strive to increase earnings through rigorous efforts to lower basic costs and reduce expenditures. At the end of the day, we understand that full-scale recovery of the owner-occupied housing market will require some time. Nonetheless, we will create a structure capable of generating steady profits by raising the efficiency of our business resources, including employees and model homes.

Allocated Investments to Priority Growth Businesses

As stated earlier, our first task is to swiftly implement measures to enhance the profitability of our core businesses. At the same time, we must strive to expand our presence in new fields in which we can generate synergies with our core businesses—with the aim of building future earnings pillars. Fortunately, the Group has a sound financial base and exceptional human resources capable of embracing new business challenges. While the outlook for the business environment is clearly not optimistic, we feel positive in that we have an opportunity to expand into new businesses. Our policy is to seize this opportunity and make proactive growth-oriented investments in three strategic fields that we have identified: Overseas operations, Real Estate Business, and Remodeling Business. (Please see the Special Feature section on page 27 for more details.)

Overseas Operations

The Japanese market is regarded as the world's most challenging in terms of emphasis on quality. Deploying the product manufacturing know-how we have amassed in such a tough market, we will reinforce our system for supplying high-quality building materials to global markets. To this end, we will upgrade our existing manufacturing operations, establish new ones, and target M&A opportunities, and considering various other possibilities, with the aim of taking the right steps based on proper research into market conditions. In addition to the United States, we are advancing our housing supply business in South Korea, China, and Australia. Our plan is to exploit these markets by bringing together the housing cultures of Japan and our partner nations, while

closely monitoring business conditions. Given growing moves to secure resources on a global basis, moreover, there are strong expectations for forest resources as well. Here, we are in an excellent position because we have forestation technologies, forestry management know-how, and a timber distribution network. In 2007, we welcomed into the Sumitomo Forestry Group a company managing around 20,000 hectares of forest in Papua New Guinea, thus broadening the total area of overseas forests in our possession. With respect to forestry resources, we will adopt a multifaceted approach to our forestation and forest management businesses in the future.

Real Estate Business

We regard our real estate business as an area in which we can convert challenges into opportunities. The domestic real estate market, where prices have been gradually increasing, has been destabilized by concerns about economic deterioration. Due to an oversupply of condominiums, meanwhile, unsold units are now becoming conspicuous, underscoring a complete change from the situation prior to 2007. From the perspective of the Sumitomo Forestry Group that joined the business later, however, this market situation provides good opportunities to make high-quality purchases. We will focus particular attention on properties that envisage future Japanese market needs, such as dedicated facilities for the elderly and private pay nursing homes. At the same time, our policy is to expand our business by utilizing our brand strength in "wood and housing" to propose comprehensive solutions.

Remodeling Business

Among the stock of detached housing in Japan at present, the most prevalent construction method is the wooden post-and-beam construction method, in which the Group specializes. Moreover, our remodeling business is not limited to houses built by our own company. Our target audience is broad and includes owners of detached wooden houses sold by other companies. However, the key distinguishing factors in the remodeling market are technologies and know-how. Anticipating a steady increase in demand in the future, we will differentiate ourselves by developing remodeling technologies to enhance earthquake resistance and a broad range of products for apartment. Going forward, we will actively invest resources into people, goods, and finances to target renewed growth.

SHAREHOLDER RETURN

Stable, Consistent Returns:

¥15.00 Annual Dividend Maintained

Fiscal 2007 saw a temporary drop in net income due to

sudden deterioration of business conditions and a loss on devaluation of investment securities. In fiscal 2008, however, we forecast a major recovery in net income. We also regard the return of profits to shareholders as our most important priority. Accordingly, our policy is to ensure that profits are appropriated in a stable, consistent manner. Based on this approach, in fiscal 2007 we declared annual dividends of ¥15.00 per share, unchanged from the previous fiscal year.

IN CONCLUSION

"Project SPEED":

Combination of Offensive and Defensive Strategies

As Japan enters an era of population decline, there will be a gradual, yet unavoidable, downward trend in the number of households. Therefore, we cannot draw a scenario for growth only by waiting for the recovery of the owner-occupied housing market. In this context, the Sumitomo Forestry Group's most urgent task is to secure wide-ranging income sources and shift to a highly profitable business structure that can withstand changes in the market environment. Our long-term management plan, "Project SPEED," is designed to achieve these objectives. With resolute persistence, I will take the lead to ensure that the plan is fully implemented.

Fortunately, the Group is in a solid position. We have diverse business domains that comprehensively advance our operations, from upstream to downstream of "wood" and "housing." We also have talented human capital, exceptional technological expertise, and a sound financial position. By effectively mobilizing these strengths, we will get our long-term management plan, "Project SPEED" into full swing as our most important priority from the perspectives of building sustainable relationships with shareholders and all other stakeholders.

We look forward to your renewed understanding and cooperation as we tackle the challenges of the future.

September 2008

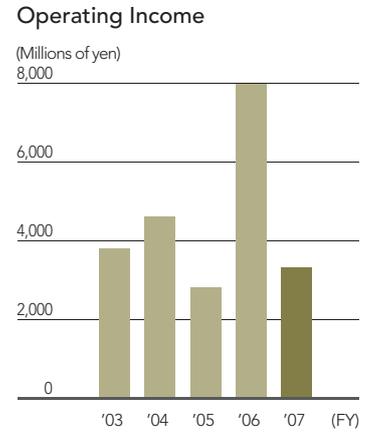
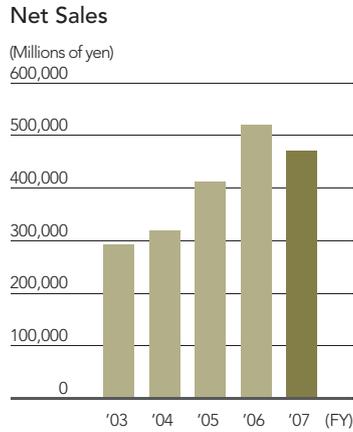
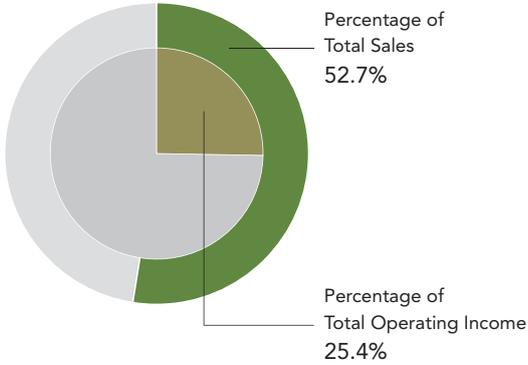
Ryu Yano

President / Director

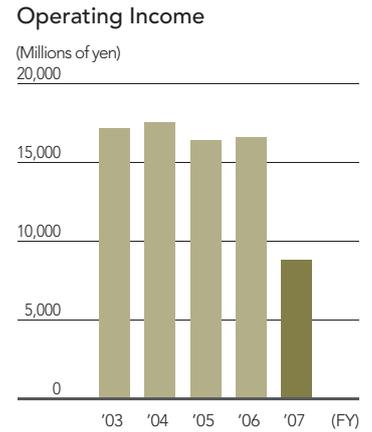
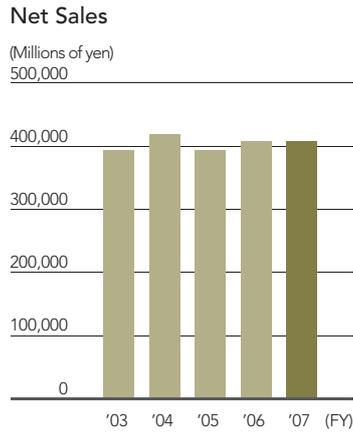
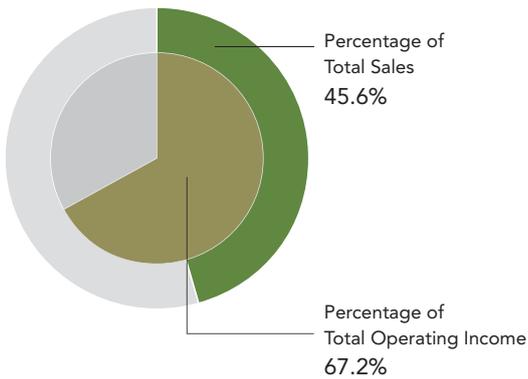


AT A GLANCE

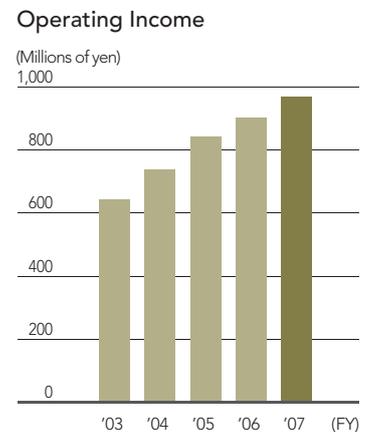
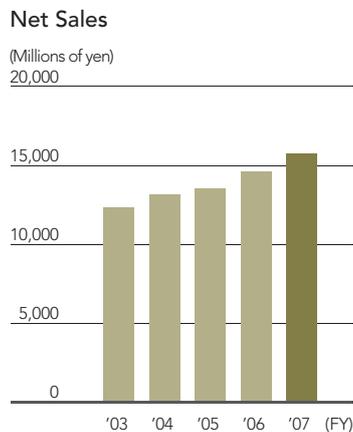
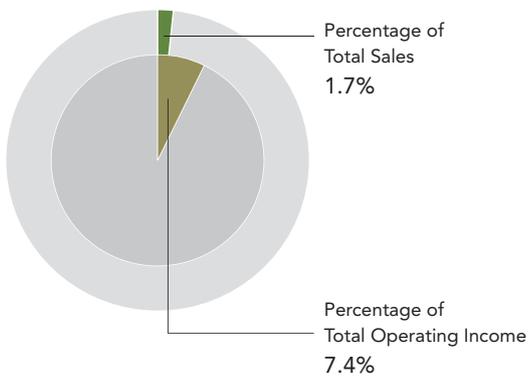
TIMBER AND BUILDING MATERIALS BUSINESS



HOUSING AND HOUSING-RELATED BUSINESSES



OTHER BUSINESSES



Notes: 1. Business segment percentages include fiscal 2007 intersegment transactions.
 2. Business segment sales and operating income figures include intersegment transactions.

Forestry Business (Domestic and Overseas Operations)	<p>In Japan, our forestry business efficiently manages some 40,000 hectares of company-owned forests using a cyclical forest management method, which involves a continuous cycle of harvesting and planting based on the principle of “sustainable forestry.” It also seeks to ensure sustainable forestry resource management overseas, with a focus on plantation timber.</p>
Manufacturing of Building Materials Business (Domestic and Overseas Operations)	<p>This business produces and processes a variety of building components; mainly wooden materials, such as boards and interior materials, and storage units, under an integrated production system that covers everything from the selection of materials to processing. Our overseas operations mainly manufacture and process panels such as medium density fiberboard (MDF), plywood, particleboard and other wooden board materials, using timber produced from plantation timber.</p>
Distribution of Timber and Building Materials Business (Domestic and Overseas Operations)	<p>Our worldwide distribution network makes us Japan’s leading trader of timber and building materials in terms of trading volume. We are expanding our overseas distribution operations, mainly in Asia, North America and Oceania.</p>
New Custom-built Housing Business (Detached Housing and Collective Housing)	<p>We assign a dedicated team of staff to each customer, responsible for marketing, design, manufacturing and interior refinement, in order to provide custom-built housing that satisfy the customer’s specific requirements. The wooden materials are a particularly appealing feature of our custom-built housing.</p>
Remodeling Business	<p>Sumitomo Forestry Home Tech Co. Ltd., a remodeling subsidiary, renovates existing housing as comfort, functional living spaces by utilizing its in-house technology and engineering expertise acquired through the Sumitomo Forestry Group’s custom-built housing business.</p>
Real Estate Business	<p>Our real estate business focuses on five core operations: effective utilization of real estate holdings, real estate development, spec homes, real estate sales and brokerage, and real estate management. It strives to provide housing and facilities that meet society’s needs by taking advantage of our innovative planning capabilities and extensive information network established through many years of experience, as well as through collaborating with other business divisions in the group.</p>
Overseas Housing Business	<p>We provide high quality wooden structure homes in the Seattle region of the United States, South Korea, China and Australia, which feature the superior characteristics of Japanese home designs adapted to local tastes.</p>
Other Housing-related Businesses	<p>Other housing-related businesses include our exterior landscaping and urban environment improvement businesses, which help to create a comfortable living environment making ample use of greenery, flowers and other outdoor ornamentation for terraces, gardens and other housing features.</p>
Lifestyle-related Business	<p>We are engaged in a diverse range of lifestyle-related businesses, including the production and sale of farm and gardening materials, insurance agency, information system development and leasing services, thereby helping to ensure that our customers have safe and comfortable lives and contributing to society as a whole.</p>

TIMBER AND BUILDING MATERIALS BUSINESS

The Timber and Building Materials Business has established itself as the leading timber and building materials trading company in Japan through its global network and wide-ranging product lineup. Our aim is to further expand our market share while leveraging our role as an industry leader to work for the benefit of both the Company and its customers, while taking the initiative in developing environmentally friendly business activities. At the same time, we manufacture building materials that maximize the advantages of wood, enabling us to supply our products not only to Japan, but also to overseas markets.

Segment Performance Highlights

	(Millions of yen)			
	FY2005	FY2006	FY2007	FY2008 Plan
Sales	412,182	520,103	470,945	510,000
Operating income	2,806	7,967	3,330	7,500
Assets	237,265	269,610	219,251	—
Capital expenditures	5,701	5,281	4,834	—

Note: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

Operating Income of Main Subsidiaries

	(Millions of yen)		
	FY2006	FY2007	FY2008 Expectation
Sumitomo Forestry Crest Co., Ltd.	943	541	770
Overseas Subsidiaries	FY2006	FY2007	FY2008 Expectation
PT. Kutai Timber Indonesia (Indonesia)*	256	(304)	460
Alpine MDF Industries Pty Ltd. (Australia)*	113	468	280
Nelson Pine Industries Ltd. (New Zealand)*	1,427	2,981	2,140

* Calculations for overseas affiliated companies have been translated into Japanese yen at the following rates.
 FY2006 US\$ = 116.31 / AU\$ = 87.62 / NZ\$ = 75.55
 FY2007 US\$ = 117.78 / AU\$ = 98.71 / NZ\$ = 86.69
 FY2008 (Expectation) US\$ = 105.00 / AU\$ = 95.00 / NZ\$ = 83.00

Sales and Operating Income Margin



Basic Strategies

Distribution of Timber and Building Materials Business

- In Japan, we work to expand market share and strengthen profitability by exhaustive inventory management and building a framework for supplying a wide range of products through developing new suppliers and markets.
- Overseas, we aim to build sales networks capable of stable supply, centering on Pacific Rim markets where we have manufacturing bases.

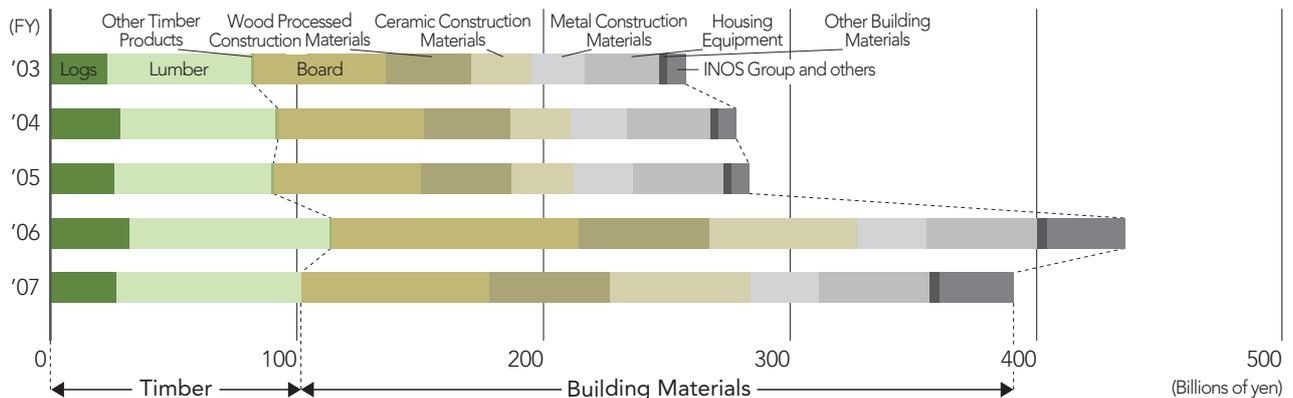
Manufacturing of Building Materials Business

- We develop an environmentally friendly business in Japan and overseas by establishing bases for the manufacture of building materials that make effective use of wood sourced from plantation timber, domestic timber, and wood waste.

Forestry Business

- We will operate company-owned forests in line with the principle of "sustainable forestry," while securing highly profitable forest resources and striving to expand the land area under our forestry management business. We will work hard to develop an environmental business that harnesses our know-how in forestry management, including our forestation consultancy business and clean development mechanism (CDM) business in Japan and overseas.

Sales by Product Category for the Distribution of Timber and Building Materials Business (non-consolidated)



FISCAL 2007 PERFORMANCE REVIEW

Business Environment and Results— Sales –9.5%, Operating Income –58.2%

In fiscal 2007, we faced an extremely harsh operating environment due to a rapid deterioration in the market for timber and building materials, as well as a fall in sales volumes and prices on the back of a slump in demand for domestic housing and disruption accompanying an amendment to the Building Standards Law. The severe impact on the plywood market and a serious imbalance between demand and supply resulted in a decline in earnings.

Overseas, our medium density fiberboard (MDF) manufacturing business in Oceania continued to record stable production and sales supported by firm global demand. However, this solid performance was unable to offset the difficulties experienced in the

domestic market.

As a result, sales in the Timber and Building Materials Business declined 9.5% year-on-year, to ¥470.9 billion. Operating income in this segment fell 58.2%, to ¥3.3 billion.

Review of Segment Results

Distribution of Timber and Building Materials Business

Under this severe operating climate, as an industry leader we sought to raise the business foundation of the entire sector by adopting a long-term perspective in order to cement our position as the No.1 company in the industry.

One such initiative was the establishment of the "Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries" in collaboration with the

TOPICS: INDONESIA PARTICLEBOARD PLANT BECOME FIRST DOMESTIC PLANT TO RECEIVE JIS CERTIFICATION

PT. Rimba Partikel Indonesia (RPI), an Indonesia affiliate engaged in the manufacture of wood-based building materials, has become the first particleboard plant in Indonesia to receive JIS certification. RPI is the only large-scale particleboard facility located on the Indonesian island of Java. The plant utilizes waste wood from nearby factories to manufacture homogeneous particleboard and commands a major share of the Indonesian market. The recent awarding of JIS certification puts RPI in an excellent position to further differentiate itself from its competitors.



Organization for Small & Medium Enterprises and Regional Innovation. Here, our aim is to promote mutual growth by supporting small and medium-sized enterprises in the housing-related sector experiencing difficulties due to problems in securing a successor. Through this fund, we will provide both financial and business assistance to help such enterprises continue their business activities.

We also implemented a variety of measures to support our customers. For example, ahead of the enforcement of the Act for Execution of Housing Defect Warranty Liability, scheduled for October 2009, we have undertaken to increase funding for J-anshin Co., Ltd.*

* J-anshin Co., Ltd. was designated as a home warranty provider by the Ministry of Land, Infrastructure and Transportation in May 2008.

Manufacturing of Building Materials Business

In Japan, we introduced a new system in the face of soaring raw material prices and import costs. The system provides for stringent management of delivery schedules and a framework for the total elimination of stockouts. In addition, we worked to improve productivity by raising the yield rate through the upgrading of facilities.

Overseas, PT. Kutai Timber Indonesia (KTI), our wooden building material manufacturing subsidiary

in Indonesia, commenced operation of its new plant for manufacturing a recently developed high-value-added lightweight particleboard. Tighter restrictions on the logging of native forests in Indonesia in recent years have made the procurement of logs used to make plywood increasingly difficult. In response, we have turned to making effective use of wood waste generated by KTI and surrounding plywood, timber, and woodworking factories, as well as resources previously discarded as waste, such as waste timber from fast-growing trees, plantations, and small branches. We plan to expand our business while putting into practice this environmentally friendly model of manufacturing building materials.

Forestry Business

In the Forestry Business, we purchased an 80-hectare forest in Kochi Prefecture in order to expand our holdings of highly profitable company-owned forests at a time when the self-sufficiency ratio of the domestic timber market is staging a recovery. Factors behind this recovery include export tariffs imposed on Russian logs and an increase in demand for timber grown in Japan accompanying heightened demand for timber sourced from plantations and legally sourced timber.

During the year, we continued to apply small area



General Manager,
Business Administrative Department
Timber and Building Materials Business
Headquarters

Masahiro Mine

INTERVIEW

The Timber and Building Materials Business Headquarters is not merely engaged in the distribution of “commodities.” It aims to transform its organization into a diversified business that includes the “investment” field, in which we generate dividends and earnings from our investing activities. As part of this strategy, in the year under review we established the “Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries” in collaboration with the Organization for Small & Medium Enterprises and Regional Innovation.

Among our many customers, there is a large number of small and medium-sized enterprises in the housing-related sector that, despite having a solid business foundation, face difficulties in continuing their businesses due to problems in securing a successor. Our aim is to support the succession of these companies by using funds to purchase shares for subsequent sale to new sponsors. We also provide support in the areas of personnel and management. By utilizing our position as a leader in the timber and building materials business, we believe that revitalizing the housing-related sector by raising the level of the industry overall will also have a positive flow-on effect for our business.

clearcutting** techniques in our company-owned forests in Shikoku and Kyushu. Through this scheme, we have reduced costs and made effective use of logged timber.

** Small area clearcutting: A logging method that lowers the impact on the environment by dividing forested land for logging into small sections.

OUTLOOK AND STRATEGIES FOR FISCAL 2008 Sales +8.3%, Operating Income +125.2%

In fiscal 2008, we expect to see a temporary increase in new housing starts in Japan as the market emerges from a decline in housing starts caused by an amendment to the Building Standards Law a year earlier. However, personal consumption is forecast to slump on the back of economic recession fears and higher prices of daily commodities. Despite a brief respite in troubles affecting the plywood market, restructuring of domestic distribution is expected to accelerate further amid the prospect of a full-scale recovery in demand being some time off.

Given these circumstances, we plan to increase our market share by investing actively in related business sectors in order to develop new suppliers and customers and build a framework capable of providing a diverse product lineup.

Overseas, we will endeavor to expand sales of high-value-added products, including lightweight

particleboard. At the same time, we must recognize that the Russian government’s 80% increase in export tariffs imposed on logs effectively makes the import of logs from Russia almost impossible. Consequently, we plan to expand our trading sphere while enhancing our network of suppliers that are able to guarantee supply no matter the situation, while also examining alternative sources.

To improve profitability, we will maximize cost-effectiveness by raising personnel efficiency through a review of personnel responsible for each product, as well as by implementing rigorous inventory management.

In the Timber and Building Materials Business, we forecast 8.3% growth in sales year-on-year in fiscal 2008, to ¥510.0 billion, and a 125.2% increase in operating income, to ¥7.5 billion.

HOUSING AND HOUSING-RELATED BUSINESSES

The Housing and Housing-related Businesses have differentiated themselves from competitors by linking the appeal of wood with individual customer needs, and deploying Sumitomo Forestry's design strengths to harness the high degree of freedom offered by wooden house. As a result, the Company has established itself as a leading brand among custom-built wooden housing in Japan. We will continue building a stable business foundation by utilizing our unique know-how to develop new remodeling, overseas, and real estate businesses.

Segment Performance Highlights

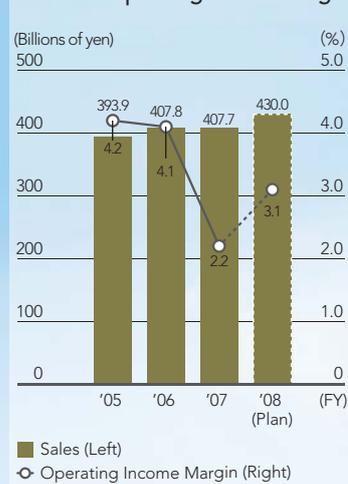
	(Millions of yen)			
	FY2005	FY2006	FY2007	FY2008 Plan
Sales	393,868	407,780	407,687	430,000
Operating income	16,370	16,586	8,797	13,200
Assets	105,579	113,276	129,440	—
Capital expenditures	3,737	3,481	5,023	—

Note: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

Operating Income of Main Subsidiaries

	(Millions of yen)		
	FY2006	FY2007	FY2008 Expectation
Sumitomo Forestry Home Engineering Co., Ltd.	647	588	650
Sumitomo Forestry Home Service Co., Ltd.	241	(77)	150
Sumitomo Forestry Home Tech Co., Ltd.	264	294	390
Sun Step Co., Ltd.	415	429	550

Sales and Operating Income Margin



Basic Strategies

New Custom-built Housing Business

- We will raise productivity and reduce fixed costs as we aim for an organization capable of producing ample income from annual sales of around 9,000 units.
- We will strive to improve efficiency through a flexible sales approach that meets specific area needs based on an accurate understanding of market size.

Remodeling Business

- We will aim to expand orders by offering proposals for the remodeling of a wide-range of housing, not limited to those built by our company. To this end, we will increase sales offices and staff numbers while utilizing our amassed technologies and know-how to differentiate our remodeling business from those of our competitors.

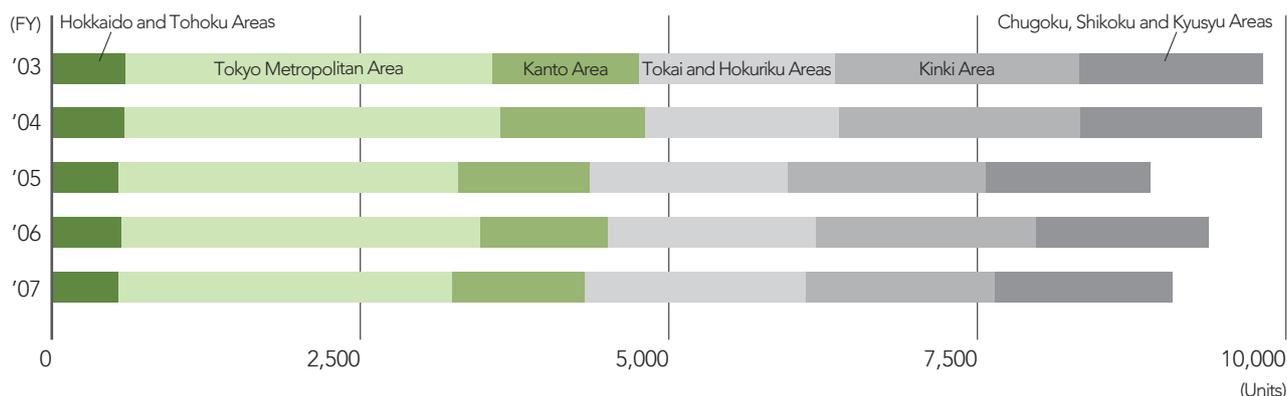
Overseas Housing Business

- While adopting a cautious approach in the U.S. market in the short term, we will steadily expand our businesses in South Korea, China, and Australia.

Real Estate Business

- In the real estate development business, we will aim to provide comfortable housing spaces based on the concept of different generations living together. We will also secure future earnings through active investments.
- In the spec homes business, we will strive to improve profitability and capital efficiency through highly reliable planning.

Orders by Region for Custom-built Detached Housing (wooden post-and-beam construction method housing only)



FISCAL 2007 PERFORMANCE REVIEW

Business Environment and Results—

Sales -0.1%, Operating Income -47.0%

Screening and inspection related to structural calculations and building assessments were tightened as a result of the enactment of the amended Building Standards Law in June 2007. However, the lack of sufficient preparation prior to the enactment of the law caused long delays in building assessment processes. This situation, coupled with growing uncertainties surrounding the economy, led to a 12.3% year-on-year drop in owner-occupied housing starts, which is a key factor in our housing business.

The Company acted early to prepare for the legislative amendment. Accordingly, with a few exceptions, the revised law had minimal impact on our housing business overall. An increase in orders obtained in the previous year, together with efforts to market high-value-added housing

that takes advantage of our design strengths, contributed to segment sales of ¥407.7 billion, down only 0.1% from the previous year. However, operating income fell 47.0%, to ¥8.8 billion, on the back of a number of factors, including soaring prices for timber and other materials and an actuarial difference related to retirement benefit obligations.

Review of Segment Results

New Custom-built Housing Business

In the business of detached housing using the wooden post-and-beam construction method, we expanded our lineup of products that promote natural and living environments.

We took advantage of our unique timber procurement network to introduce a number of new products. These included *MyForest-Super Natural Cherry*, which uses black cherry grown in North America for interior materials; *MyForest-MiQUO*, with designs offering open



"MyForest-MiQUO"

This product is based on open plan designs suitable for family living. The designs make it easy to combine household chores with looking after children. In one design, for example, there is no wall separating the stairs from the living room, enabling more opportunities for children to communicate with other family members before they head upstairs to their rooms upon returning home. This is just one of the many innovative designs included in the 100 basic plans available.

plan layouts suitable for family living; *MyForest-Solabo*, which comes with a solar power system and all electric equipment as standard features; and *MyForest-Taiju*, which uses 100% domestic timber for the main structural components. During the year, we also responded to individual customer needs and implemented marketing strategies tailored to regional characteristics.

As a result, the value of completed units constructed using our wooden post-and-beam construction method increased 0.5%, to ¥286.7 billion. Value per 1 *tsubo* (3.3m²) on a completion basis rose 2.1%, to ¥728,000, and value per 1 *tsubo* on an order basis grew 2.4%, to ¥762,000. However, unit orders declined 4.1%, to 8,987 units, due to a slump in orders received stemming from consumer restraint amid a slowing economy.

Despite our strategy of focusing on mid-level and high-end products, the value of completed units of two-by-four construction method homes fell 8.4%, to ¥10.2 billion, while orders received were down 16.3%, to ¥9.9 billion. These declines were caused by deteriorating market conditions.

In fiscal 2007, we undertook a restructuring, in which the wooden apartment building business became part of the Housing Business Headquarters. Under the new organization, we targeted proactive marketing activities in the year under review.

As a result, the value of orders grew 6.6% year on year, to ¥6.0 billion. However, completion dates were put back due to longer lead times between orders and the start of construction stemming from the amended

Unit Sales and Average Sales Price in the Custom-built Detached Housing



Building Standards Law, resulting in a 26.6% decline in the value of completed projects, to ¥4.4 billion.

Remodeling Business

In the remodeling business, we obtained objective verification of the advanced technological capabilities of the "portal frame shear wall" and "glass block shear wall"—technologies used in remodeling to make buildings earthquake resistant—when they were assessed by The Japan Building Disaster Prevention Association.

During the year, we held regular viewing of houses under construction as a part of our strategy. In addition, we offered a wide range of remodeling proposals not only for homes constructed by us, but also for those built by other companies by highlighting our technological capabilities in conventional construction methods (wooden post-and-beam construction method). Our diverse approaches adopted in relation to remodeling included sales of *Ma:Ri*, a product designed specifically for apartments.

As a result, sales rose 3.0%, to ¥26.6 billion. However, a deterioration in macroeconomic conditions resulted in a 1.6% decline in the number of remodeling orders, to 8,535.

Overseas Housing Business

In North America, our main overseas market where we have been steadily expanding our presence, our business was affected by a sudden cooling sentiment in the housing market due to the subprime mort-



Director and General Manager,
Business Division
Sumirin Life Assist Co., Ltd.
Masanobu Tanimoto

INTERVIEW

At Sumirin Life Assist, we work together with the Real Estate Business Headquarters to operate business focused on service for the elderly. This specifically concentrates on the operation of private pay nursing homes.

Three elements are required to be successful in this business: facilities, staff, and management. On the facilities side, we offer a homely atmosphere reminiscent of wooden homes, making full use of the advanced technologies accumulated by the Sumitomo Forestry Group. On the management side, we possess plenty of know-how acquired from our experience in many home-based nursing facilities, which has been one of our policies for the effective use of land. Although we had experienced a shortage with respect to staff, we remedied this situation in fiscal 2007 when we welcomed Fillcare Co., Ltd., which operates private pay nursing homes in six localities, to our group of companies.

As a member of the Sumitomo Forestry Group, which aims to become a total housing and living-related company, we at Sumirin Life Assist wish to help realize a comfortable aging society by providing our elderly residents with the dignified lifestyles they so richly deserve.

gage crisis. Consequently, for the time being we have switched to a cautious sales approach centering on the careful selection of spec homes.

As a result, the number of units sold was 69, declined by 30 compared with the previous year. In accordance with our long-term strategy, however, we initiated measures for the development of large-scale real estate by establishing a joint venture with a local company located in the outskirts of Seattle.

Elsewhere, we added Australia to the list of new markets we are in the process of tapping, which already include South Korea and China.

Real Estate Business

We focused on real estate development, including the sale of lots subdivided from land purchased by the Company, as well as the rental business. In addition to becoming involved in the development of condominiums, we actively fostered our real estate business by participating in construction projects based under private finance initiative (PFI*) arrangements. We also launched the "Shizuoka Aoi-no-Mori Project" (see page 29 in the Special Feature section of this report). In addition to reporting steady growth in the real estate business, we commenced sales of spec homes in eight locations developed earlier by the Property Development Business Division, which brought annual sales in the real estate business to 54 units.

* Private finance initiative (PFI): An arrangement in which private funding is used to construct facilities for the national and local governments, without public funds being directly used.

OUTLOOK AND STRATEGIES FOR FISCAL 2008 Sales +5.5%, Operating Income +50.0%

While the disruption caused by the enactment of the amended Building Standards Law should subside in fiscal 2008, we expect that downward pressure on the Japanese economy will continue to put a damper on the housing market. In our view, it will take some time until the owner-occupied housing market, which has a significant impact on the Company's business, stages a recovery. Therefore, in the custom-built housing business, we will increase profitability by improving productivity through enhanced efficiency, cost reductions, and reviewing the allocation of staff and model homes. Through these measures, we will be able to generate sufficient profits from the completion of even 9,000 units, a change from our previous annual profit baseline of 10,000 completed units. We will complement these efforts with an offensive strategy emphasizing high-value-added products based on "longevity" and "coexisting with nature"—two concepts that will become increasingly important in meeting future market demand.

In the remodeling business, we will establish new outlets and increase staff numbers to meet expected market growth. We will strive to grow our proposal-based business that continue to highlight our unique technologies.

In the real estate development business, we will adopt a nationwide strategy that enables different generations, from infants to the elderly, to live together in comfort.

Based on the above measures, we forecast sales growth of 5.5% in this segment in fiscal 2008, to ¥430 billion, and a 50.0% increase in operating income, to ¥13.2 billion.

OTHER BUSINESSES

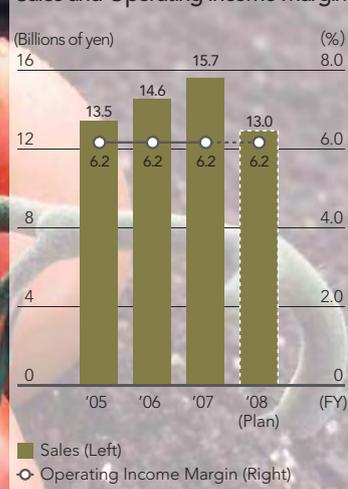
The operations of the Sumitomo Forestry Group extend beyond its business of providing comfortable housing. We also offer a wide range of services that help our customers lead fulfilling lifestyles and also benefit local communities and the surrounding environment. These services include the production and sale of farm and garden materials, insurance agency, information systems development, and leasing services.

Segment Performance Highlights

	(Millions of yen)			
	FY2005	FY2006	FY2007	FY2008 Plan
Sales	13,549	14,597	15,734	13,000
Operating income	841	903	969	800
Assets	9,139	9,067	9,071	—
Capital expenditures	980	811	886	—

Note: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

Sales and Operating Income Margin



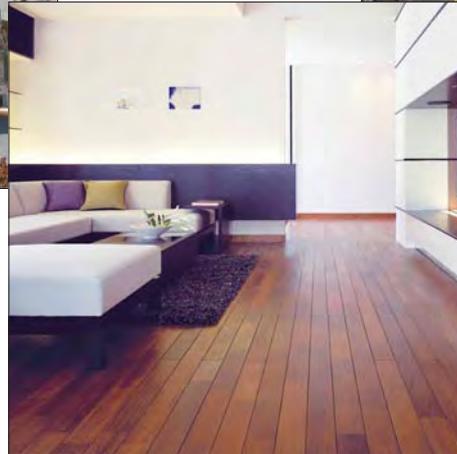
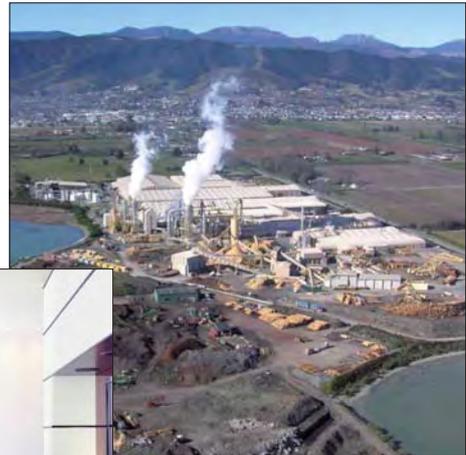
FISCAL 2007 PERFORMANCE REVIEW

Business Environment and Results— Sales +7.8%, Operating Income +7.3%

In fiscal 2007, sales in the Other Businesses segment increased 7.8% year-on-year, to ¥15.7 billion. The primary contributor to this growth was insurance agency and leasing subsidiary Sumirin Enterprises Co., Ltd., which enjoyed strong sales of fire insurance to the Group's housing customers. Operating income rose 7.3%, to ¥1.0 billion.

OUTLOOK AND STRATEGIES FOR FISCAL 2008

Operations in the Other Business segment center mainly on services for Group members and focus on developing systems which enhance overall profitability by promoting the smooth implementation of business activities within the Group. Sumirin Enterprises currently provides fire insurance to around 50% of Sumitomo Forestry's housing customers. It will continue working to expand that share while offering services matched to the specific needs of local communities.



FEATURE: BUILDING A NEW FOUNDATION FOR GROWTH

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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.

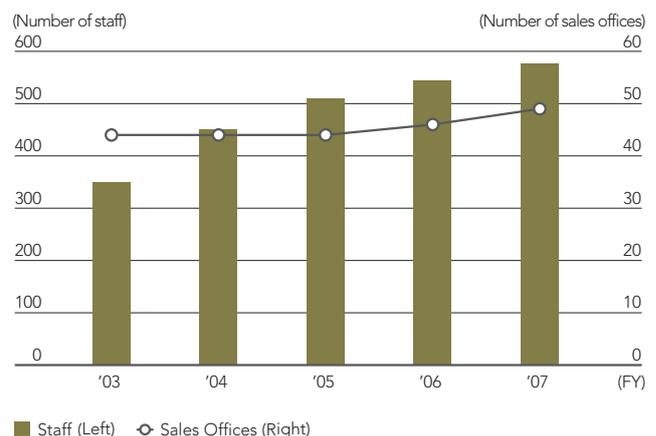
Approximately 80% of staff employed by our remodeling subsidiary Sumitomo Forestry Home Tech possesses

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





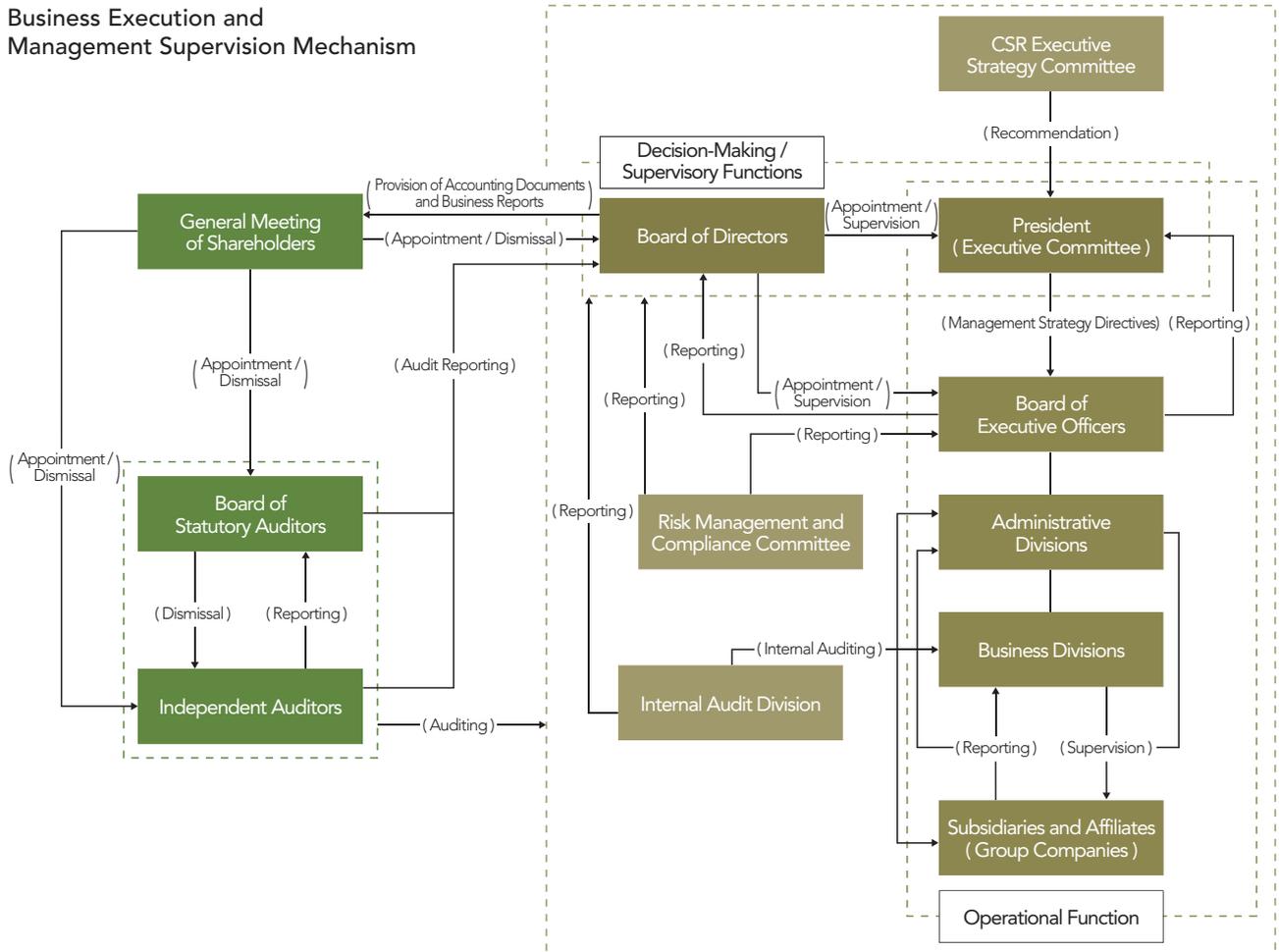
CORPORATE SOCIAL RESPONSIBILITY

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OUR MANAGEMENT SYSTEM

Business Execution and Management Supervision Mechanism



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.

ACTION GUIDELINES

Sumitomo Spirit

- We conduct business that is beneficial to society based on the principles of integrity and sound management.

Respect for Humanity

- We create an open and inclusive corporate culture that values diversity.

Symbiosis with the Environment

- We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society.

Putting Customers First

- We are thoroughly committed to customer satisfaction through the provision of high-quality products and services.

BASIC POLICIES

Our corporate philosophy is as follows: "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." Guided by this philosophy, we have adopted a basic policy targeting maximization of Corporate value. To realize this basic policy, we have formulated a set of action guidelines emphasizing the Sumitomo Spirit, respect for humanity, symbiosis with the environment, and putting customers first. The Sumitomo Spirit involves maintaining proactive, sound management with a focus on fairness and integrity. Demonstrating our respect for humanity, we aim to create an open-minded corporate culture in which each employee works with high moral and pride. We also strive to symbiosis with the environment by deploying our business activities to foster natural, comfortable living spaces. In addition, we put the customers first by placing top priority on ensuring their satisfaction.

CORPORATE GOVERNANCE

The Sumitomo Forestry Group regards corporate governance as key to raising transparency of corporate management and ensuring sound, sustainable management. Strengthening and upgrading corporate governance, therefore, is one of our top management priorities.

Executive Officer System

In June 2002, we introduced an executive officer system to separate the decision-making and supervisory function from the business execution function. In this way, we have sought to improve the speed of management, reinforce supervision of business execution, and better clarify responsibilities for business execution.

Board of Directors and Executive Committee

The Board of Directors meets once a month and the Executive Committee meets twice a month to cope with violent changes in the business environment. The Board of Directors makes decisions on important items, monitors the Group's business performance, and fortifies supervision of business execution. The Executive Committee discusses Group strategies. In June 2005, the retirement benefit system for direc-

tors was abolished and replaced by a remuneration and bonus system closely linked to business performance.

Compensation for Directors and Auditors

Directors (7 persons): ¥287 million
Auditors (4 persons): ¥59 million

Board of Auditors

Sumitomo Forestry's Board of Auditors has four statutory auditors, including two external auditors. In addition to attending important company meetings, auditors meet once every three months to exchange views with representative directors regarding business issues and improvements to the auditing environment. A supervisory department has been set up within the parent company to provide management and guidance for various Group companies. In addition, the Group Board of Auditors (an information exchange entity), made up of auditors from various Group companies, meets regularly to ensure the appropriateness of the Group's overall operations.

External Statutory Auditors

The two external statutory auditors are Mr. Hiroshi Miki and Mr. Satohiko Sasaki. Mr. Miki is an attorney who evaluates the appropriateness of the Group's operations from legal and impartial perspectives. Mr. Sasaki, a professor at the Advanced Research Institute for the Sciences and Humanities at Nihon University, is highly knowledgeable in the fields of forestry management and forest resource science. He provides objective evaluations of the Group's environmental activities and business development in Southeast Asia. Both men have no capital or personal relationships with the Sumitomo Forestry Group.

Name and title	Board of Directors (20 times)		Board of Auditors (14 times)	
	Attended	Attendance	Attended	Attendance
Hiroshi Miki (Statutory Auditor)	19 times	95%	14 times	100%
Satohiko Sasaki (Statutory Auditor)	17 times	85%	12 times	86%

Strengthening Disclosure and Accountability

To increase the transparency of its operations, Sumitomo Forestry not only holds information meetings to announce its interim and year-end results, but also actively communicates with its shareholders and investors other ways. These include one-on-one meetings with shareholders and investors (around 200 such meetings held in the year under review). In

September 2007, we gave a presentation about forestry management at a conference hosted by a securities company. In these and other ways, we worked to help as many investors as possible gain an accurate understanding of our company.

Our proactive disclosure policy goes further than simply fulfilling our explanatory obligation. We also utilize grass-roots feedback from shareholders and investors to improve our management, which we feel is an important part of building deeper trust with the capital markets and maximizing corporate value.

COMPLIANCE

The Sumitomo Forestry Group works to deeply entrench compliance as an essential prerequisite for continuing business activities. The Compliance Group within the General Administrative Division identifies and develops response measures for potential compliance risks in order to strengthen compliance systems throughout the Sumitomo Forestry Group. To address diverse risks affecting each business, we are also establishing an internal control system and reinforcing risk management.

INTERNAL CONTROL AND RISK MANAGEMENT

Previously, the Group assembled a dedicated project team to prepare the groundwork for building an internal control system for financial reporting, pursuant to the Financial Instruments and Exchange Law. By March 2008, the team had completed all such preparations, and full-scale measures for an effective internal control system began in the following month.

The Group's risk management activities include monitoring and supervision by the Board of Directors and risk management on a corporate governance level by the statutory auditors. In addition, each business division identifies, evaluates, and manages risks in its respective businesses. In fiscal 2007, we started preparing a new "risk map" covering all companies in the Group to cope with violent changes in our business environment. In addition, we started compiling a "disaster response manual" incorporating Business Continuity Plan (BCP)* concepts, with the aim of minimizing damage in the event that a major earthquake in the Tokyo Metropolitan Area causes suspension of head office operations, and also to permit swift assistance to customers affected by disaster.

* BCP: Management Strategies designed to avoid suspension of main businesses or recover from such suspension within as short a period as possible in the event that the Group is affected by a disaster. The BCP is aimed to protect the Group from losing customers to competitors, a decline in market share, or damage to its reputation as a result of suspension of businesses.

EXAMPLES OF COMPLIANCE, INTERNAL CONTROL, AND RISK MANAGEMENT ACTIVITIES

Compliance Counter

With the aim of promoting self-policing in our activities, we established the Compliance Counter consultation system to receive information from employees throughout the Group about illegal activities and actions that violate our corporate ethics. The general manager of the General Administrative Division and legal advisors serve as communications representatives of the Compliance Counter. In fiscal 2007, we issued notebook-sized manuals to all Group employees in Japan to encourage use of the Compliance Counter.

Emergency Hotline

In preparation for emergency situations, we have established a dedicated Emergency Hotline, which is accessible to all Group employees and is designed to provide swift, accurate responses around the clock, 365 days a year. The response system includes a "two-hour rule" for reporting emergency situations to top management so that they can swiftly provide guidance to address any situation.

Information Security

Due to the nature of its business, the Group maintains detailed information about customers for long periods of time and regards reinforcement of information security, including of personal information about customers, as a top priority. For this reason, we have adopted a proactive stance on data protection, which includes raising employee awareness through special training and online courses on the Personal Information Protection Law and strict in-house rules on the use of digital memory media.

DIRECTORS (As of June 20, 2008)



Hitoshi Hayano Managing Executive Officer	Akira Ichikawa Managing Executive Officer	Shigehiko Shiozaki Managing Executive Officer	Hideyuki Kamiyama Managing Executive Officer	(Back row)
Ryu Yano President and Executive Officer	Mamoru Inoue Senior Managing Executive Officer	Hideki Nose Senior Managing Executive Officer		(Front row)

DIRECTORS

* President / Director	Ryu Yano
* Director	Mamoru Inoue
* Director	Hideki Nose
Director	Hideyuki Kamiyama
Director	Shigehiko Shiozaki
Director	Hitoshi Hayano
Director	Akira Ichikawa

(* Representative Director)

STATUTORY AUDITORS

Senior Statutory Auditor	Shoichi Takahashi
Statutory Auditor	Satoru Takeno
* Statutory Auditor	Hiroshi Miki
* Statutory Auditor	Satohiko Sasaki

(* Outside Corporate Auditors as stipulated by the Commercial Code)

EXECUTIVE OFFICERS

* President and Executive Officer	Ryu Yano	
* Senior Managing Executive Officer	Mamoru Inoue	Executive Manager of Overseas Business Headquarters
* Senior Managing Executive Officer	Hideki Nose	Responsible for Intellectual Property, Tsukuba Research Institute, Executive Manager of Forestry and Environment Headquarters
* Managing Executive Officer	Hideyuki Kamiyama	Executive Manager of Timber and Building Materials Business Headquarters
* Managing Executive Officer	Shigehiko Shiozaki	Executive Manager of Housing Business Headquarters
* Managing Executive Officer	Hitoshi Hayano	Executive Manager of Real Estate Business Headquarters
* Managing Executive Officer	Akira Ichikawa	Responsible for Corporate Planning, General Administrative, Personnel, Finance, Information Systems, Internal Audit
Executive Officer	Masahiro Nishimura	President and Director of Sumitomo Forestry Home Tech Co., Ltd.
Executive Officer	Josuke Toyoda	General Manager of Information Systems Division
Executive Officer	Koji Takata	President and Director of Sumitomo Forestry Crest Co., Ltd.
Executive Officer	Hideo Watabe	Assistant Executive Manager of Real Estate Business Headquarters and General Manager of Real Estate Solution Business Division of the same headquarters
Executive Officer	Yasuyuki Yamamoto	Assistant Executive Manager of Housing Business Headquarters, Responsible for Product Development, Technology
Executive Officer	Jiro Kuramitsu	Assistant Executive Manager of Timber and Building Materials Business Headquarters
Executive Officer	Shigeru Sasabe	General Manager of Personnel Division
Executive Officer	Ken Wada	Assistant Executive Manager of Housing Business Headquarters, Responsible for Business Strategy, Succeed Business (Apartment Building Business)
Executive Officer	Seiichi Takano	Assistant Executive Manager of Housing Business Headquarters, Responsible for Production Management, Warranty and Customer Information

(* Doubles as Director and Executive Officer)

OUR CORPORATE SOCIAL RESPONSIBILITY (CSR)

Deploying its unique, specialized expertise in “wood” and “housing,” Sumitomo Forestry strives to create a “cycles of happiness” linking employees, customers, regional communities, and the global environment. This is the essence of our corporate social responsibility commitment.

* For special details about our CSR activities, please refer to our website.

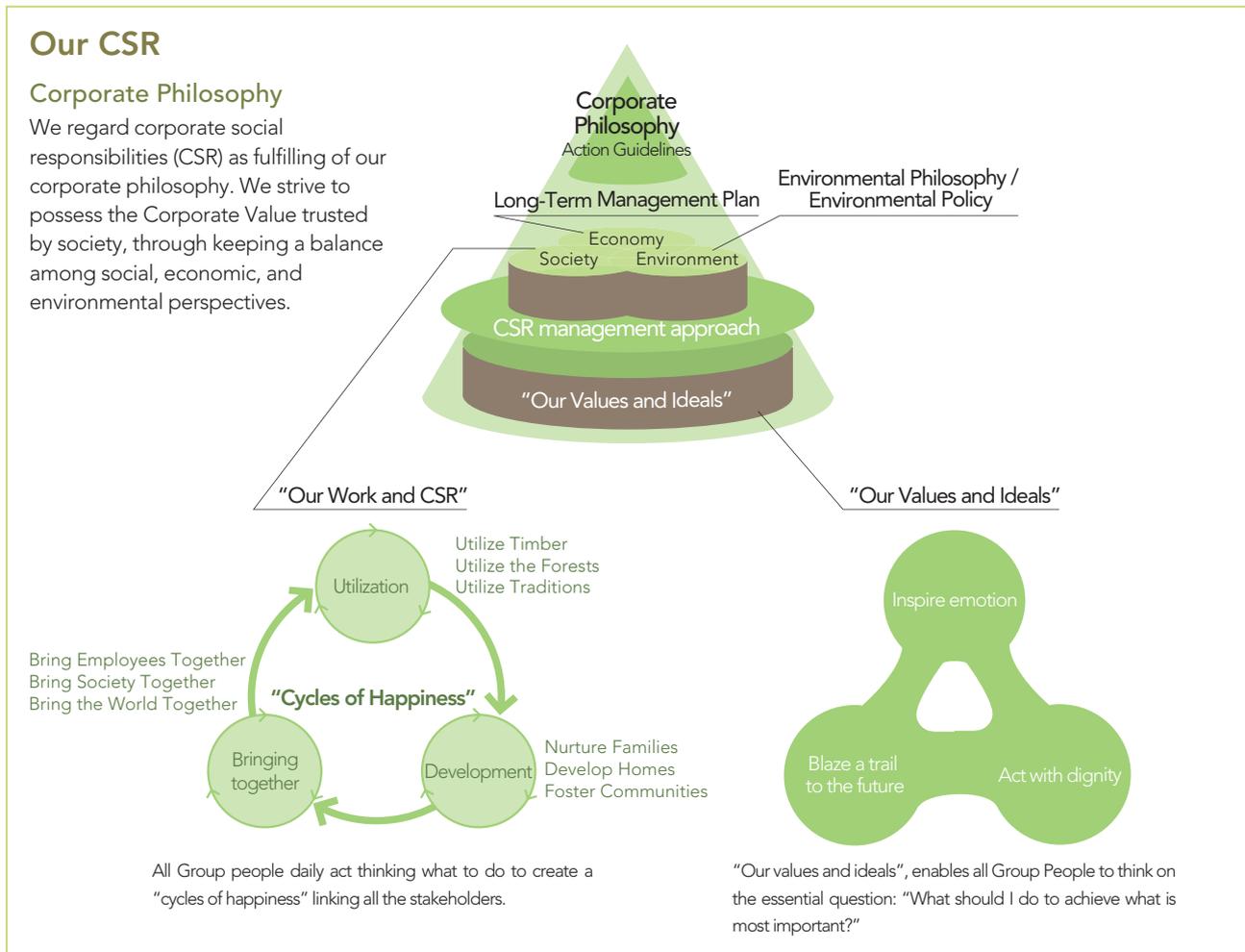
CORPORATE PHILOSOPHY AND CSR MANAGEMENT

The Sumitomo Forestry Group utilizes timber as a renewable and environmentally friendly natural resource and provides all kinds of housing-related services. In this way, we help realize a prosperous society as reflected in our corporate philosophy. In other words, we deploy our unique, specialized expertise in wood and housing to create a “cycles of happiness” linking employees, customers, regional communities and the global environment, in an effort to remain a company considered valuable by society in the future.

CSR Code of Conduct

As a company, we have a CSR management approach that emphasizes our economic, social, and environmental responsibilities. To fulfill these responsibilities, we have formulated a statement entitled “Our Work and CSR,” which calls for all Group employees to meet the expectations of society by adopting CSR-driven perspectives and considering the social implications of their own business activities.

We also formulated the statement “Our Values and Ideals” enabling all Group people, including directors, to jointly embrace the essential question: “What should I do to achieve what is most important?”



SPECIFIC CSR INITIATIVES

In this section, we introduce two examples of CSR activities pursued by the Sumitomo Forestry Group.

Case 1

Sustainable, coexistence with the environment housing, stemming from forestation

MyForest-Taiju

In February 2008, we launched a new product, “*MyForest-Taiju*,” which combines a multitude of the Group’s environmentally friendly technologies. This detached housing products features a robust design using 100% domestic cypress as the main structural material, offering earthquake resistance and durability that will provide comfort for the owners and their future generations. It also uses domestic cedar as the interior material, thus minimizing the environmental impact of both structure and materials. In addition, it incorporates our unique natural heating and cooling *Ryouonbou* concept, which skillfully mobilizes the renewable energy of the sun and wind, together with the special attributes of garden trees, to save energy and reduce carbon dioxide emissions. By utilizing domestic materials, we can contribute to forestation in Japan and provide high-asset-value, sustainable housing that is both comfortable to live in and coexistence with the environment.

100% domestic timber used as main structural material

For the main structural material used in posts, base, beams, closing, and other sections, we used “Super Cypress” made from 100% domestic cypress. We also use domestic cypress in the cross panels*, an original load-bearing wall panel developed by the Company. By using Japanese cypress as the structural material for the housing frame, we have achieved 100% use of domestic timber for the main structure.

* Cross panels (original load-bearing wall panels): Durable surface material in which narrow cedar panels are cross-latticed together at a 45-degree angle to the ground. This design, original to the Sumitomo Forestry Group, offers exceptional permeability and durability.

Ryouonbou: Cool in summer, warm in winter

This configuration has three key elements: “*Taiyo no Sekkei*” (solar design,) which accumulates heat by bringing solar rays into the house; “*Kaze no Sekkei*” (wind design,) which harnesses the wind to attract coolness; and “*Midori no Sekkei*” (green design,) which uses the power of planting and other greenery to serve as “natural cooling agents.” By combining these elements, we have developed a house that efficiently utilizes the sun, wind, and other renewable energy sources. With such a design concept, which is original to the Sumitomo Forestry Group, we can reduce the usage time of heating and cooling equipment and thus offer an environmentally friendly living space with lower energy consumption and carbon dioxide emissions.

Materials and equipment that reduce environmental impact

For the internal walls, we use volcanic ash as the main material. Our “volcanic ash walls,” which offer excellent humidity control and odor-suppressing qualities, are coated with “Sea-Sand Coat” combining natural soil with shell and coral. Water-related equipment is also environmentally friendly, with such features as a highly efficient hot water supply facilities, heat-insulating bathtub, water-saving toilet, and built-in water purifier. In these ways, we ensure that the equipment contained in the house helps reduce carbon dioxide emissions.



MyForest-Taiju
The exterior of a product



MyForest-Taiju
The interior of a product



Cross Panels



Natural heating and cooling *Ryouonbou*

Case 2

World's first technology for wood traceability using DNA

Since 2003, Sumitomo Forestry has been developing method for wood traceability, or scientifically verifying the history of wood, from seedling to final product. Recently, we refined a technology for identifying specific pieces of wood using DNA.

Native forests play a major influential role in the earth's ecosystem. In order to protect such natural forests, wood resources in the future will be sourced mainly from artificial forests. These are sustainable forests in which tree varieties are best suited to the region, planted using top-quality seeds, then logged and replanted. From the perspectives of protecting native forests and preventing illegal logging, there are growing opportunities worldwide for promoting the use of legitimate timber, by using forest certification systems. However, there has been an absence of consistent rating systems for verifying production location, which is fundamental to confirming timber legitimacy. Because different verification methods are used in different regions, confirmation ultimately depends on visual inspection by the human eye. Facing this challenge, Sumitomo Forestry developed the world's first wood traceability technology using DNA. This is a revolutionary development allowing scientific verification of the legitimacy of wood products.

To date, identification of artificial forests was limited to leaves, logs, and boards. Our new technology, however, enables checks to be made at all stages, from seedlings to mature trees, and from logs to plywood and other processed timber products. Therefore, inspectors can confirm whether or not other timber varieties have been added at any time in the process, from forest to consumer, so they can prevent a reduction in quality at an early stage.

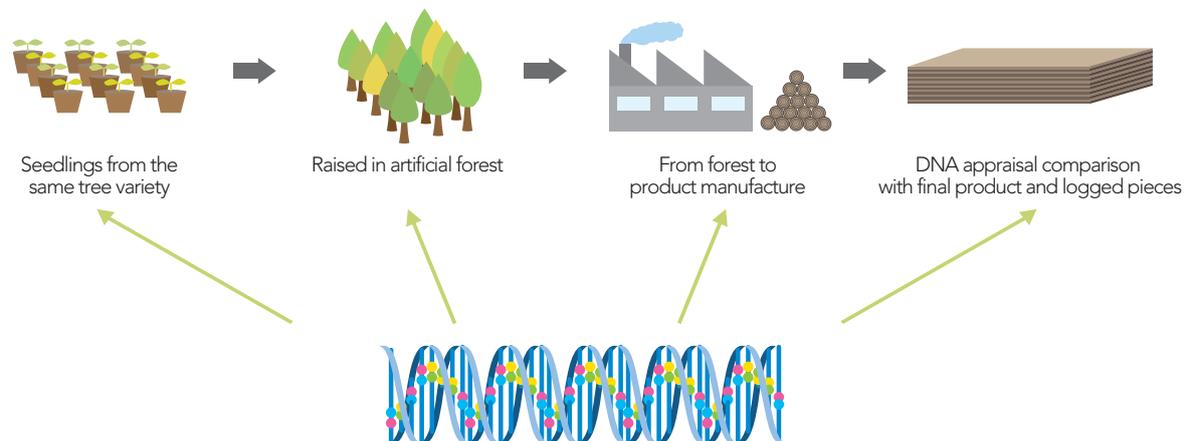
The Sumitomo Forestry Group has been involved in forestation activities in various world regions for some time. These activities include breeding of high-quality seeds and clone propagation of famous and valuable trees. Having established our revolutionary wood traceability technology, however, we plan to develop an integrated business that also includes planting of high-quality trees and forestation management.

Identification of plywood and laminated timber also possible

In the case of trees with long growth periods, DNA-based identification has been difficult in the past. This is because the accuracy of analysis deteriorates as the portion analyzed gets closer to the tree's heartwood. In the case of plywood and other processed products, moreover, the quality of analysis deteriorates due to heating and bonding at the time of manufacture. With our new technology, however, we earmark sections where, in the DNA base array of the subject being analyzed, DNA with the same makeup is aligned repeatedly from two to five pairs. Using difference in the lengths of such sections, we can identify plywood and laminated timber.

Wood traceability using DNA

This method uses DNA technology to identify individual wood-related specimens, from seedlings to logs and wood materials, making wood traceability possible.



FINANCIAL SECTION

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TEN-YEAR SUMMARY

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen (unless otherwise specified)		
	2008	2007	2006
Operating Results:			
Net sales and contract revenues	¥ 861,357	¥ 911,674	¥ 791,128
Timber and Building Materials Business* ¹	470,945	520,103	412,182
Housing and Housing-related Businesses* ¹	407,687	407,780	393,868
Other Businesses	15,734	14,597	13,549
Elimination and / or corporate	(33,009)	(30,806)	(28,471)
Gross profit	135,277	141,117	127,853
Selling, general and administrative expenses	128,041	120,711	112,407
Operating income	7,235	20,405	15,446
Timber and Building Materials Business* ¹	3,330	7,967	2,806
Housing and Housing-related Businesses* ¹	8,797	16,586	16,370
Other Businesses	969	903	841
Elimination and / or corporate	(5,860)	(5,051)	(4,571)
Recurring income* ²	7,659	21,259	16,800
Net income (loss)	1,115	11,954	10,842
Financial Position:			
Total assets	¥ 450,730	¥ 500,136	¥ 464,193
Working capital* ³	64,156	76,453	68,037
Interest-bearing debt	25,816	25,739	22,067
Total net assets* ⁴	173,089	188,855	175,206
Cash Flows:			
Cash flows from operating activities	¥ 26,106	¥ 7,084	¥ 16,626
Cash flows from investment activities	(17,587)	(7,102)	(8,998)
Cash flows from financing activities	(4,262)	665	(14,039)
Cash and cash equivalents at the end of the year	54,475	50,311	49,628
Capital Investment:*⁵			
Tangible fixed assets	¥ 9,578	¥ 6,724	¥ 8,132
Software	1,691	1,581	1,857
Others	225	721	454
Total	11,494	9,026	10,443
Depreciation and amortization	7,258	6,476	6,403
Per Share Data:			
	Yen		
Net income (loss)	¥ 6.3	¥ 67.4	¥ 61.3
Net assets	976.0	1,059.2	996.0
Cash dividends	15.00	15.00	13.00
Financial Ratios:			
	%		
Gross profit margin	15.7	15.5	16.2
Operating income margin	0.8	2.2	2.0
Recurring income margin	0.9	2.3	2.1
Return on asset (ROA)* ⁶	1.6	4.4	4.0
Return on equity (ROE)* ⁶	0.6	6.6	6.6
Equity ratio	38.4	37.5	37.7
Interest-bearing debt ratio* ⁷	13.0	12.1	11.2
Current ratio	127.6	129.3	129.3
Interest coverage ratio [times]	4.5	11.2	10.8

Notes: 1. Starting in fiscal 2000, the profits from transactions in housing materials have been included in the Housing and Housing-related segment; they were previously included in the Timber and Building Materials segment.

2. Recurring income = Operating income + Non-operating income – Non-operating expenses
Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, loss on devaluation of property, plant and equipment, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.

3. Working capital = Current assets – Current liabilities

Millions of yen (unless otherwise specified)

2005	2004	2003	2002	2001	2000	1999
¥ 723,193	¥ 673,779	¥ 645,100	¥ 644,730	¥ 682,375	¥ 699,594	¥ 620,615
320,255	293,220	283,517	270,856	279,811	340,988	294,411
418,313	393,616	370,421	381,978	405,150	370,692	335,782
13,185	12,350	17,882	18,050	16,978	15,481	13,900
(28,560)	(25,408)	(26,721)	(26,154)	(19,565)	(27,568)	(23,480)
125,582	120,778	109,631	109,437	118,064	112,269	99,692
107,116	103,201	100,858	106,397	102,065	98,720	93,481
18,466	17,577	8,772	3,040	15,999	13,549	6,210
4,615	3,813	2,238	1,882	5,128	14,770	11,341
17,530	17,150	9,920	4,961	16,631	5,141	942
738	644	415	579	519	569	1,315
(4,418)	(4,030)	(3,802)	(4,384)	(6,279)	(6,933)	(7,388)
18,692	17,074	9,721	3,731	16,908	12,541	6,305
8,014	9,870	(15,439)	465	6,994	5,708	134
¥ 370,684	¥ 369,755	¥ 357,322	¥ 365,531	¥ 371,102	¥ 360,935	¥ 346,293
67,579	66,377	60,260	60,477	61,319	68,892	71,746
15,580	19,929	16,497	18,124	24,517	35,720	40,059
152,500	146,269	129,727	147,440	150,979	144,914	139,301
¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332	¥ 3,468	¥ (3,281)	¥ 26,715
(12,895)	(7,646)	2,026	(16,439)	(1,960)	(3,330)	2,068
(7,087)	(735)	(8,171)	(9,716)	(13,873)	(5,351)	(8,257)
55,928	69,312	52,029	38,873	47,476	59,916	71,971
¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705	¥ 4,448	¥ 4,373	¥ —
1,673	1,468	2,077	2,194	1,889	1,264	—
549	883	283	225	252	303	—
9,237	6,392	5,123	10,124	6,590	5,941	4,556
6,452	6,447	5,985	5,289	4,551	4,756	5,060
Yen						
¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6	¥ 39.6	¥ 32.4	¥ 0.8
866.5	830.5	736.4	835.1	854.9	821.6	789.8
13.00	13.00	10.00	10.00	10.00	10.00	10.00
%						
17.4	17.9	17.0	17.0	17.3	16.0	16.1
2.6	2.6	1.4	0.5	2.3	1.9	1.0
2.6	2.5	1.5	0.6	2.5	1.8	1.0
5.0	4.7	2.7	1.0	4.6	3.5	1.8
5.4	7.2	(11.1)	0.3	4.7	4.0	0.1
41.1	39.6	36.3	40.3	40.7	40.1	40.2
9.3	12.0	11.3	10.9	14.0	19.8	22.3
137.4	135.7	132.6	131.8	131.1	137.7	141.6
18.6	21.9	18.3	7.8	22.6	18.6	5.8

4. Total net assets are presented following enforcement of the Japanese Corporate Law in 2006. Total net assets are comprised of the sum of shareholders' equity as previously defined and minority interest and gains (losses) on deferred hedges.

5. Disclosure of capital investment was not institutionalized prior to fiscal 1999, thus data prior to fiscal 1999 is only partially available.

6. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

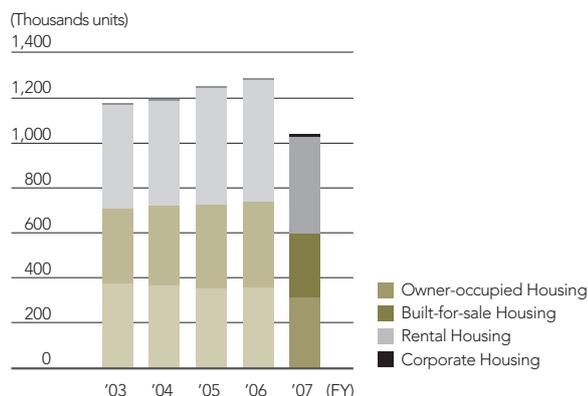
ROE = Net income (loss) / Shareholders' equity

7. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

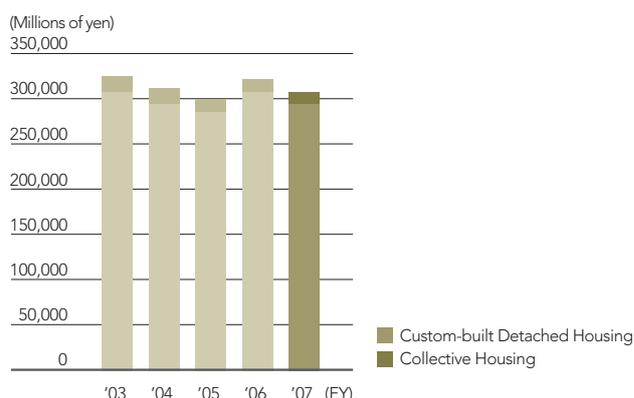
MANAGEMENT DISCUSSION AND ANALYSIS

(including business risk disclosure)

Number of New Housing Starts in Japan



Amount of Orders Received



MARKET OVERVIEW

The Japanese economy was on a general path of recovery in the business year ended March 2008, due to an increase in exports to growing Asian economies and a rise in private capital investment, reflecting strong corporate earnings.

However, corporate profitability weakened toward the end of the year amid the surge in prices of raw materials and the slowdown of the U.S. economy caused by the subprime mortgage crisis, while households remained unable to feel the benefits of the recovery during the year. As a result, the economy faced downside risks.

In the housing sector, interest in housing investment weakened as consumer sentiment was dampened by uncertainty over the future course of the Japanese economy, sluggish growth in overall wages, and the rising prices of daily commodities. This, combined with the impact of the enforcement of the amended Building Standards Law, caused new housing starts to plunge 19.4% from the previous year to 1,036,000 units. Owner-occupied housing starts, which are closely related to our housing business, decreased 12.3% to 312,000 units.

In the timber and building materials sector, we faced a very difficult market environment as the price of plywood dropped sharply and the prices of other timber and building materials also fell, due to the combination of an increase in the supply of materials following strong sales in the previous year and a decline in demand due to the reduction in housing starts.

CONSOLIDATED OPERATING RESULTS

1. Net Sales and Orders Received

Sales declined by ¥50.318 billion, or 5.5%, year-on-year to ¥861.357 billion. Although the number of custom-built detached houses completed in the year declined, sales fell only marginally due to a rise in the unit price. However, an excess supply of timber and building materials caused by the decline in housing starts led to weak sales in our timber and building materials business. The value of orders for custom-

built detached houses dropped by 4.1% year-on-year to ¥295.413 billion and the number of order units fell by 4.6% to 9,301 units. The negative impact of weak consumer sentiment due to uncertainty over the future course of the economy outweighed the effects of our sales strategy of meeting various local needs by offering an expanded product lineup.

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by ¥7.330 billion, or 6.1%, year-on-year to ¥128.041 billion. While we increased personnel expenses with a view to future business expansion, we made company-wide efforts to reduce costs to a minimum. However, overall expenses expanded as we booked expenses of ¥4.533 billion related to the Company's retirement benefit obligations.

3. Operating Income

Operating income decreased by ¥13.170 billion, or 64.5%, year-on-year to ¥7.235 billion, as a result of a decline in the gross profit margin due to the slumping prices of timber and building materials and a rise in the prices of raw materials for custom-built wooden houses in our housing and housing-related businesses. It should be noted that if the aforementioned expenses related to retirement benefit obligations are excluded, operating income comes to ¥11.769 billion, representing a year-on-year decline of 36.4%.

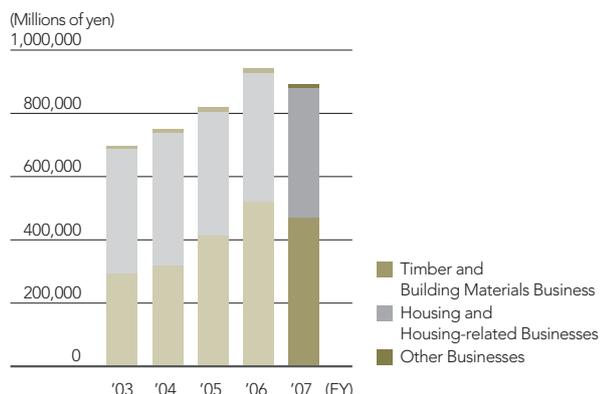
4. Other Income and Expenses

Other income minus other expenses dropped 674.7% year-on-year to minus ¥1.634 billion, mainly because we booked valuation losses of ¥3.837 billion on our investment securities holdings amid the stock market slump.

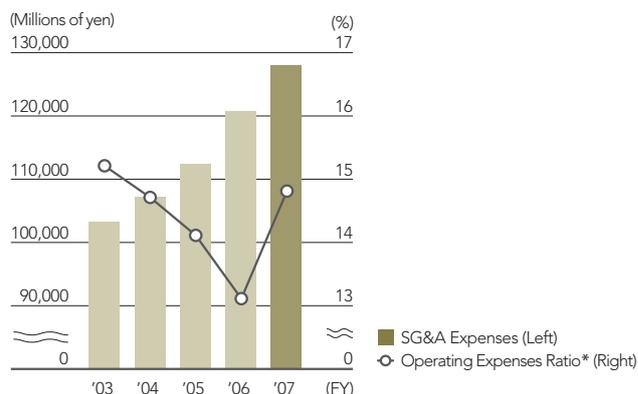
5. Net Income

As a result of the above factors, net income decreased by ¥10.839 billion, or 90.7%, year-on-year to ¥1.115 billion. Accordingly, net income per share fell by ¥61.14 to ¥6.29.

Net Sales and Contract Revenues



SG&A Expenses and Operating Expenses Ratio



* Operating Expenses Ratio = SG&A Expenses / Net Sales and Contract Revenues

SEGMENT RESULTS

(including intersegment transactions)

1. Timber and Building Materials Business

Net sales in our timber and building materials business declined 9.5% year-on-year to ¥470.945 billion and operating income dropped by 58.2% to ¥3.330 billion. In distribution of timber and building materials business, we suffered from falls in the sales prices and sales volumes, since housing starts declined sharply as a result of a decrease in housing demand and the disruption caused by the enforcement of the amended Building Standards Law. Meanwhile, as a manufacturer of building materials in Japan and abroad, we managed to improve our profitability despite slack sales—attributable to reduced domestic demand and the rising costs of raw materials and transportation—thanks to our maintaining steady production and sales of medium-density fiberboard (MDF) in Oceania.

2. Housing and Housing-related Businesses

Net sales in our housing and housing-related businesses declined 0.1% year-on-year to ¥407.687 billion and operating income dropped 47.0% to ¥8.797 billion. The sales of custom-built houses declined due to weak housing demand, and the profitability of our housing business was lowered by a surge in the prices of timber and other materials. Meanwhile, we strived to expand our real estate business by strengthening real estate develop-

ment, including condominium sales and rentals, and by starting sales of spec homes in eight locations, including Hadano City in Kanagawa Prefecture and Nagoya City in Aichi Prefecture. In our remodeling business, we strived to secure customers planning medium or large-scale remodeling by periodically holding events such as visits to houses under remodeling construction.

FINANCIAL POSITION AND CASH FLOW

1. Financial Position

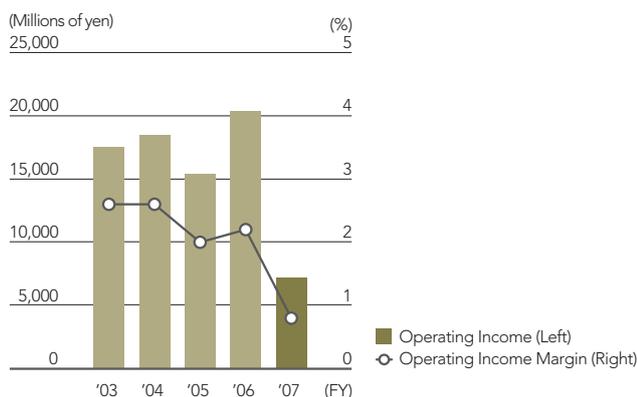
During the business year ended March 2008, total assets decreased by ¥49.406 billion year-on-year to ¥450.730 billion. The decrease mainly reflected a decline of ¥40.057 billion in current assets—attributable to a decrease in notes and accounts receivable—resulting from lower sales and a reduction of products, and a reduction of ¥15.329 billion in investments and other assets due to the write-down of investment securities. Total liabilities declined by ¥33.640 billion to ¥277.641 billion, mainly because notes payable and accounts payable decreased due to reduced procurements, reflecting the aforementioned lower sales, and because deferred tax liabilities decreased as a result of the stock market slump. Total net assets declined by ¥15.766 billion to ¥173.089 billion because of a decrease in the valuation and translation adjustments. The equity ratio stood at 38.4%.

Business Results by Segment

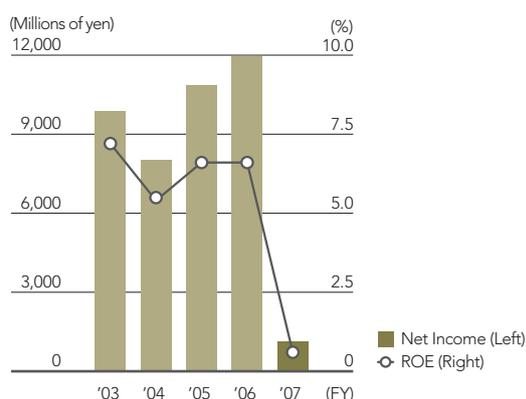
	Timber and Building Materials Business		Housing and Housing-related Businesses		Other Businesses	
	FY2007	FY2006	FY2007	FY2006	FY2007	FY2006
Net sales	470,945	520,103	407,687	407,780	15,734	14,597
Operating income	3,330	7,967	8,797	16,586	969	903
Operating income margin	0.7%	1.5%	2.2%	4.1%	6.2%	6.2%

Note: The sales figures given above include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

Operating Income and Operating Income Margin



Net Income and ROE



2. Cash Flow

Net cash generated by operating activities increased by ¥19.022 billion year-on-year to ¥26.106 billion, as the progress in the collection of accounts receivable that came with the decline in sales in our timber and building materials business offset an increase in inventories of real estate for sale due to efforts to promote our real estate business. Net cash used for investment activities increased by ¥10.485 billion to ¥17.587 billion as a result of capital investment by domestic and foreign manufacturing subsidiaries and the acquisition of additional shares in consolidated subsidiaries. Financing activities recorded a net cash outflow of ¥4.262 billion, a turnaround from the previous year's inflow of ¥665 million, because of the repayment of interest-bearing debts and the payment of dividends.

BUSINESS RISK

1. Housing Market Trends

The Sumitomo Forestry Group business results are heavily reliant on the trends in the housing market. Changes in the following business conditions may cause significant declines in housing orders that could negatively impact the group's business results.

1) Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, as well as a decline in personal consumption caused by such factors, could negatively affect the group's business results by weakening customer interest in purchasing housing.

2) Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build collective housing for the effective use of their land. The anticipation of rises in interest rates can induce a temporary surge in home purchases however as consumers seek to avoid high loan costs.

3) Land Price Fluctuations

A sharp rise in land prices can have a negative effect on consumer inclination to purchase land on which to build housing. Conversely, a steep drop in land price is a form of asset deflation and can reduce demand for home reconstruction. Consequently, substantial rises or drops in land prices both have the potential to negatively impact the group's business results.

4) Tax System Changes

An increase in the consumption tax rate that would directly apply to housing purchase amounts would potentially significantly reduce housing demand and could negatively impact the group's business results.

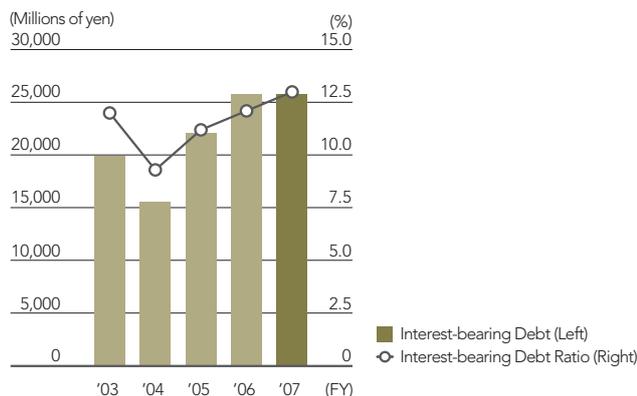
2. Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act in addition to the Building Standards Law, Construction Industry Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site clean-up). The Sumitomo Forestry Group diligently conforms to all laws and regulations while recognizing that the abolition, revision, or adoption of laws and regulations can substantially influence the group's business results.

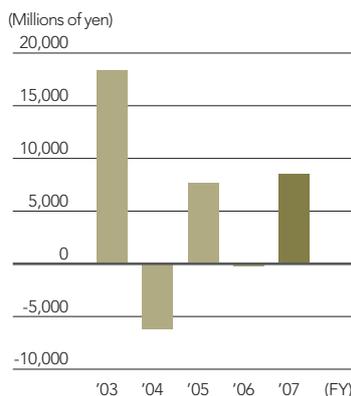
3. Timber and Building Materials Market Conditions

Declines in prices for timber and building materials reduce the profitability of the timber and building materials business. On the other hand, steep increases in prices for timber and building materials, as well as rises in prices for other building materials, can lead to higher materials costs for the housing business which could negatively impact group results. Price fluctuations for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the group's business results.

Interest-bearing Debt and Interest-bearing Debt Ratio



Free Cash Flows



* Free Cash Flows = Cash Flows from Operating Activities + Cash Flows from Investment Activities

4. Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks involved in foreign currency-denominated imports through foreign exchange forward contracts and other means. However, foreign exchange rate fluctuations could push the group's costs temporarily up or down. Meanwhile, a group company that manufactures and sells wooden building materials abroad, for example, could be negatively impacted if the currency of its host country appreciates against the currency used for settlement.

5. Product Quality Assurance

The group endeavors to implement complete quality control of its products, housing, and in all aspects of its operations. However, unforeseen circumstances can potentially lead to a significant quality issue that could influence the group's business results.

6. Overseas Business Activities

The group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the group conducts business can influence the group's business results.

7. Retirement Benefit Obligations

A significant deterioration in the operating environment for the group's pension assets, such as substantial fluctuations in the domestic stock market or the necessity to revise the assumptions for pension actuarial calculations, can require an increase in pension assets or can increase the costs associated with the pension accounts, and could influence the group's business results and financial position.

8. Stock Market

Volatile stock price fluctuations could cause the Group

to book evaluation losses on its securities holdings, thereby negatively impacting its business results and financial position.

9. Natural Disasters

Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases from operating interruptions at facilities, safety verification of our housing products, completion delays for construction contracts, or other actions. A significant increase in costs caused by a natural disaster could influence group business results.

10. Information Security

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an employee or contracted worker, an accident, or other causes. In such cases, the group could face customer claims for compensatory damages and lose the trust of customers and the market, which could negatively affect its business results.

11. Environmental Risk

"Symbiosis with the Environment" is a top priority for the group and is one of the four action guidelines of the group's corporate philosophy. Changes to environmental regulations in Japan or overseas or the occurrence of major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems, or other expenses that could influence the group's business results.

* Future possibilities referred to in this section are those that were deemed by the Sumitomo Forestry Group as potential risk factors at the time when this annual report was compiled.

CONSOLIDATED BALANCE SHEETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	2008
Current assets:			
Cash and time deposits (Note 11)	¥ 39,591	¥ 47,385	\$ 395,905
Marketable securities (Notes 5, 11)	15,000	3,000	150,000
Receivables-			
Notes and accounts, trade	120,308	167,404	1,203,078
Loans and other	47,383	50,138	473,827
Inventories-			
Finished goods, logs and lumber	22,985	30,087	229,848
Developed land and housing for sale	14,865	12,128	148,652
Land and housing projects in progress	27,760	16,698	277,599
Deferred income taxes (Note 8)	5,588	6,179	55,881
Other current assets	4,167	4,710	41,669
Allowance for doubtful accounts	(631)	(657)	(6,314)
Total current assets	297,014	337,072	2,970,145
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	20,644	19,812	206,437
Buildings and structures	41,463	37,665	414,629
Machinery and equipment	67,476	62,587	674,761
Timberland (Note 6)	11,044	10,741	110,443
Construction in progress	5,552	3,867	55,524
	146,179	134,672	1,461,794
Less accumulated depreciation	(66,259)	(60,622)	(662,587)
Net property, plant and equipment	79,921	74,050	799,207
Intangible assets, net of amortization:			
Goodwill	1,025	927	10,249
Other intangible assets	5,399	5,386	53,986
Total intangible assets	6,423	6,313	64,235
Investments and other assets:			
Investment securities (Note 5)	47,890	71,584	478,898
Long-term loans and receivables	9,557	2,258	95,568
Deferred income taxes (Note 8)	1,599	1,101	15,993
Other assets	9,664	9,595	96,640
Allowance for doubtful accounts	(1,339)	(1,837)	(13,386)
Total investments and other assets	67,371	82,700	673,713
Total assets	¥ 450,730	¥ 500,136	\$ 4,507,300

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	2008
Current liabilities:			
Payables-			
Notes and accounts, trade	¥ 148,198	¥ 167,140	\$ 1,481,983
Other	5,574	8,297	55,743
Short-term debt (Note 7)	12,046	14,355	120,456
Current portion of long-term debt (Note 7)	5,360	2,621	53,596
Advances received from customers	41,385	44,446	413,847
Accrued income taxes	3,012	4,602	30,117
Accrued employees' bonuses	7,637	8,566	76,373
Accrued directors and corporate auditors' bonuses	42	83	417
Other current liabilities (Note 8)	9,605	10,507	96,047
Total current liabilities	232,858	260,619	2,328,579
Long-term liabilities:			
Long-term debt (Note 7)	8,411	8,763	84,107
Deferred income taxes (Note 8)	6,377	15,400	63,774
Accrued employees' retirement benefits (Note 16)	15,063	12,383	150,631
Other long-term liabilities	14,932	14,116	149,323
Total long-term liabilities	44,784	50,662	447,835
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Note 12)			
Common stock-			
Authorized: 400,000,000 shares			
Issued and outstanding:			
177,410,239 shares in 2008 and 177,410,239 shares in 2007	27,672	27,672	276,721
Capital surplus	26,876	26,882	268,760
Retained earnings	107,198	108,919	1,071,982
Treasury stock: 237,846 shares in 2008 and 174,188 shares in 2007	(249)	(184)	(2,495)
Total shareholders' equity	161,497	163,288	1,614,968
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities	9,085	22,482	90,847
Deferred gains or losses on hedges	59	155	591
Foreign currency translation adjustments	2,278	1,804	22,785
Total valuation and translation adjustments	11,422	24,441	114,223
Minority interests in consolidated subsidiaries	169	1,125	1,695
Total net assets	173,089	188,855	1,730,886
Total liabilities and net assets	¥ 450,730	¥ 500,136	\$ 4,507,300

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	2008
Sales:			
Net sales	¥ 496,478	¥ 545,735	\$ 4,964,784
Contract revenues	364,878	365,940	3,648,781
Total	861,357	911,674	8,613,565
Cost of sales:			
Cost of sales	456,481	504,152	4,564,810
Cost of contracts completed	269,599	266,405	2,695,987
Total	726,080	770,558	7,260,797
Gross profit	135,277	141,117	1,352,768
Selling, general and administrative expenses (Note 10)	128,041	120,711	1,280,414
Operating income	7,235	20,405	72,354
Other income (expenses):			
Interest and dividends income	1,570	1,299	15,698
Interest expense	(1,444)	(1,284)	(14,438)
Equity in earnings of affiliates	—	228	—
Loss on devaluation of investment securities	(3,837)	(9)	(38,371)
Loss on devaluation of real estate for sale and other assets	(177)	(137)	(1,769)
Loss on the move of business establishment	—	(352)	—
Loss on business restructuring	—	(663)	—
Loss on retirement allowance by merger	—	(145)	—
Gain on sales of investment securities	2,247	273	22,467
Other gains, net (Note 9)	7	1,073	73
Total	(1,634)	284	(16,340)
Income before income taxes and minority interests	5,601	20,689	56,014
Income taxes (Note 8):			
Current	5,156	5,381	51,557
Deferred	(661)	3,180	(6,610)
Total	4,495	8,561	44,947
Minority interests	(8)	174	(83)
Net Income	¥ 1,115	¥ 11,954	\$ 11,150
Per share of common stock:			
Net Income (Note 18)	¥ 6.29	¥ 67.43	\$ 0.06
Cash dividends	15.00	15.00	0.15

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen									
	Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Unrealized Gain on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Minority Interests	Total Net Assets
Balance as of March 31, 2006	176,603,881	¥ 27,672	¥ 25,655	¥ 99,319	¥ (617)	¥ 22,125	¥ —	¥ 1,052	¥ 3,124	¥ 178,330
Cash dividends (¥13.00 per share)		—	—	(2,295)	—	—	—	—	—	(2,295)
Bonuses to directors and corporate auditors		—	—	(59)	—	—	—	—	—	(59)
Net income		—	—	11,954	—	—	—	—	—	11,954
Purchases of treasury stock		—	—	—	(130)	—	—	—	—	(130)
Disposal of treasury stock		—	1	—	5	—	—	—	—	6
Increase or decrease by merger	806,358	—	1,226	—	557	—	—	—	—	1,783
Other changes		—	—	—	—	357	155	752	(1,999)	(735)
Balance as of March 31, 2007	177,410,239	¥ 27,672	¥ 26,882	¥ 108,919	¥ (184)	¥ 22,482	¥ 155	¥ 1,804	¥ 1,125	¥ 188,855
Cash dividends (¥15.00 per share)		—	—	(2,835)	—	—	—	—	—	(2,835)
Net income		—	—	1,115	—	—	—	—	—	1,115
Purchases of treasury stock		—	—	—	(95)	—	—	—	—	(95)
Disposal of treasury stock		—	(6)	—	30	—	—	—	—	24
Other changes		—	—	—	—	(13,397)	(96)	474	(956)	(13,975)
Balance as at March 31, 2008	177,410,239	¥ 27,672	¥ 26,876	¥ 107,198	¥ (249)	¥ 9,085	¥ 59	¥ 2,278	¥ 169	¥ 173,089

	Thousands of U.S. dollars (Note 4)									
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Unrealized Gain on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Minority Interests	Total Net Assets	
Balance as of March 31, 2007	\$ 276,721	\$ 268,818	\$ 1,089,186	\$ (1,844)	\$ 224,818	\$ 1,552	\$ 18,040	\$ 11,254	\$ 1,888,545	
Cash dividends (¥15.00 per share)	—	—	(28,354)	—	—	—	—	—	(28,354)	
Net income	—	—	11,150	—	—	—	—	—	11,150	
Purchases of treasury stock	—	—	—	(949)	—	—	—	—	(949)	
Disposal of treasury stock	—	(58)	—	298	—	—	—	—	240	
Other changes	—	—	—	—	(133,971)	(961)	4,745	(9,559)	(139,746)	
Balance as of March 31, 2008	\$ 276,721	\$ 268,760	\$ 1,071,982	\$ (2,495)	\$ 90,847	\$ 591	\$ 22,785	\$ 1,695	\$ 1,730,886	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,601	¥ 20,689	\$ 56,014
Adjustments —			
Depreciation and amortization	7,258	6,476	72,582
Amortization of goodwill	682	576	6,821
Provision for (reversal of) doubtful accounts	(528)	(517)	(5,278)
Provision for (reversal of) employee's retirement benefits, less payments	2,678	(3,495)	26,776
Interest and dividend income	(1,570)	(1,299)	(15,698)
Interest expense	1,444	1,284	14,438
Equity in earnings of affiliates	185	(228)	1,845
Losses on devaluation of marketable securities and investment securities	3,837	9	38,371
Losses (gains) on sales of marketable securities and investment securities, net	(2,247)	(273)	(22,467)
Losses (gains) on disposal of fixed assets, net	(3)	(326)	(29)
Change in assets and liabilities:			
Notes and accounts receivable, trade	47,823	(23,440)	478,234
Inventories	(6,053)	(10,671)	(60,526)
Other current assets	29	(3,672)	290
Notes and accounts payable, trade	(22,129)	14,188	(221,291)
Advances received from customers	(3,296)	6,914	(32,963)
Other current liabilities	(1,874)	549	(18,740)
Other	560	878	5,598
Total	32,398	7,642	323,977
Interest and dividend income received	1,873	1,448	18,728
Interest paid	(1,458)	(1,275)	(14,581)
Income taxes paid, net	(6,707)	(731)	(67,066)
Net cash provided by operating activities	26,106	7,084	261,058
Cash flows from investment activities:			
Decrease (increase) in short-term loans receivable	(1,252)	(445)	(12,522)
Payments for purchases of fixed assets	(12,598)	(11,613)	(125,981)
Proceeds from sales of fixed assets	3,305	7,676	33,046
Payments for purchases of intangible assets	(1,695)	(1,586)	(16,947)
Payments for purchases of investment securities	(3,144)	(2,143)	(31,436)
Proceeds from sales of investment securities	2,808	1,294	28,077
Payments for additional acquisition of stock of consolidated subsidiaries	(1,106)	—	(11,056)
Payments for purchase of stock of subsidiary newly consolidated	(417)	—	(4,170)
Proceeds from purchase of stock of subsidiary newly consolidated	76	—	759
Payments for long-term loans receivable	(3,685)	(186)	(36,854)
Repayments of long-term loans receivable	104	106	1,042
Other	17	(204)	174
Net cash used in investment activities	(17,587)	(7,102)	(175,868)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(2,896)	3,031	(28,965)
Proceeds from long-term debt	5,439	3,632	54,388
Repayments of long-term debt	(3,845)	(3,522)	(38,453)
Dividends paid	(2,835)	(2,295)	(28,354)
Other	(123)	(180)	(1,235)
Net cash used in financing activities	(4,262)	665	(42,619)
Effect of exchange rate changes on cash and cash equivalents	(93)	35	(932)
Net increase (decrease) in cash and cash equivalents	4,164	682	41,639
Cash and cash equivalents at the beginning of the year	50,311	49,628	503,107
Cash and cash equivalents at the end of the year (Note 11)	¥ 54,475	¥ 50,311	\$ 544,746

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

1. NATURE OF OPERATIONS

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle related businesses, including the leasing and insurance agent business.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan (formerly, Securities and Exchange Law of Japan).

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under Japanese GAAP but is presented herein as additional information.

As permitted, amount of less than one million yen are rounded in this annual report.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and, with exceptions that are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within twenty-years. Immaterial differences are expensed when incurred.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

(c) Statements of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(e) Accrued employees' bonuses

Accrued employees' bonuses are provided based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

(f) Warranty reserve for completed construction

A warranty reserve is provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The balance of the reserves at March 31, 2008, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥1,327 million (US \$13,266 thousand).

(g) Accrued employees' retirement benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the plan assets at year-end.

Unrecognized actuarial gains (losses) are amortized in the fiscal year in which they arise.

(h) Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors of some subsidiaries are provided based on the amount required for at year-end in accordance with established internal regulations.

(i) Reserve for restructuring costs

The allowance for restructuring costs is stated at the estimated losses on restructuring of discontinued operation and on readjustment of town lots of land, at the end of the fiscal year.

The balance of these reserves at March 31, 2008, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥888 million (US \$8,876 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent

and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

The Company determines cost of securities sold by the moving average method.

(k) Inventories

Inventories other than finished goods are stated at cost, which is determined by the specific identification method.

Finished goods are stated at moving average cost.

(l) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for assets acquired on or after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law (the Corporate Tax Law). The effect of this change on the income and segment information for the year ended March 31, 2008 were immaterial.

Pursuant to an amendment to the Corporate Tax Law, effective from the year ended March 31, 2008, the Companies depreciate the difference between the original residual value of 5% of acquisition cost of assets acquired before March 31, 2007 and the new residual value of 1 Yen (memorandum value) by the straight-line method over 5 years commencing from the fiscal year following the year in which the asset becomes fully depreciated to the original residual value. Depreciated amounts are included in depreciation expenses. The effect of this change on the income and segment information for the year ended March 31, 2008 were immaterial.

(m) Timberland

Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural

forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost.

The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in Years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1-6	Weeding
8	Vine cutting
10-14	Salvage cutting
14	Pruning
16-25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(n) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

Sales of pre-cut timber, building materials and certain housing equipment, such as system kitchens, system furniture, bathtubs, sinks and other, which are purchased by the Company and sold to building contractors for use in house building projects specifically subcontracted from the Company, are recognized upon completion and acceptance of the completed houses by the customers, with the related cost being included in cost of contracts completed.

Contract revenues, representing revenues from custom-built houses, are recorded when the completed

houses are accepted by customers.

(o) Finance leases

Finance leases of the Companies, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(p) Income taxes

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(q) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

(r) Earnings per share of common stock

The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

(s) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2007 have been reclassified to conform to presentation in 2008.

4. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥100=US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2008. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. SECURITIES

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 29,166	¥ 15,975	¥ (1,775)	¥ 43,366
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	400	—	—	400
Other	¥ 15,000	¥ —	¥ —	¥ 15,000

	Millions of yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 31,715	¥ 37,397	¥ (1,069)	¥ 68,043
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	¥ 3,397	¥ —	¥ —	¥ 3,397

	Thousands of U.S. dollars			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 291,663	\$ 159,749	\$ (17,748)	\$ 433,664
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	4,004	—	—	4,004
Other	\$ 150,000	\$ —	\$ —	\$ 150,000

Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	Proceeds	¥ 2,808	¥ 1,294
Gross gains	2,247	273	22,467
Gross losses	—	—	—

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008			
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due within one year	¥ —	¥ 15,000	\$ —	\$ 150,000
Due after one year				
through five years	—	293	—	2,929
Due after five years				
through ten years	—	108	—	1,075
	¥ —	¥ 15,400	\$ —	\$ 154,004

The difference between the above cost and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

6. TIMBERLAND

The investment in timberland at March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Standing timber:			
Mature timber	¥ 10,763	¥ 10,401	\$ 107,628
Growing timber	282	340	2,815
	11,044	10,741	110,443
Land	483	477	4,827
	¥ 11,527	¥ 11,217	\$ 115,270

The timberland accounts at March 31, 2008 and 2007 were reduced by ¥268 million (US \$2,684 thousand) and ¥268 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

7. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2008 and 2007 generally represented short-term borrowings which bore interest of 4.90% and 4.76% per annum, respectively. Long-term debt at March 31, 2008 and 2007 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans, principally from banks and insurance companies, due 2009 to 2013 with interest of 6.02%:			
Secured	¥ 2,960	¥ 3,220	\$ 29,599
Unsecured	10,810	8,004	108,104
Debenture bonds:			
0.35 basis points	—	60	—
0.64 basis points	—	100	—
	13,770	11,384	137,703
Portion due within one year	5,360	2,621	53,596
	¥ 8,411	¥ 8,763	\$ 84,107

The following assets were pledged to secure bank loans and long-term debt at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Receivables-			
Notes and accounts, trade	¥ 428	¥ 457	\$ 4,280
Finished goods,			
logs and lumber	1,153	1,407	11,531
Land	245	334	2,452
Buildings and structures	3,789	3,774	37,887
Machinery and equipment	9,561	9,614	95,611
Timberland	1,556	2,000	15,560
Time deposit	15	—	145
	¥ 16,747	¥ 17,586	\$ 167,466

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

YEARS ENDING MARCH 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 5,360	\$ 53,596
2009	1,403	14,029
2010	272	2,722
2011	2,281	22,806
2012	591	5,906
Thereafter	3,864	38,644
	¥ 13,770	\$ 137,703

8. INCOME TAXES

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rate for fiscal 2008 was 40.0%.

The chart below shows the differences in the statutory tax rate and effective income tax rate.

	2008	2007
Statutory tax rate	40.0%	—
Non-deductible expense for purposes	6.3	—
Per capita portion of Inhabitant Tax	5.0	—
Amortization of goodwill	4.9	—
Valuation allowance	36.4	—
Adjustment on prior year income taxes	(7.7)	—
Other	(4.7)	—
	80.2%	—

For the year ended March 31, 2007, the difference is not disclosed because the difference is less than 5% of the normal effective statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,276	¥ 3,691	\$ 32,764
Devaluation of real estate for sale and other assets	5,071	4,019	50,713
Pension and severance costs	5,921	4,870	59,215
Tax loss carryforwards	1,885	984	18,853
Impairment loss	1,359	1,397	13,593
Other	5,460	5,289	54,599
Gross deferred tax assets	22,974	20,250	229,737
Valuation allowance	(10,511)	(8,471)	(105,106)
Total deferred tax assets	12,463	11,780	124,631
Deferred tax liabilities:			
Deferred gains on sales of property	(897)	(1,033)	(8,972)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(15,904)
Unrealized gain on available-for-sale securities	(4,909)	(13,615)	(49,088)
Land revaluation differences	(1,309)	(1,309)	(13,091)
Other	(3,019)	(2,412)	(30,190)
Gross deferred tax liabilities	(11,724)	(19,959)	(117,245)
Net deferred tax assets	¥ 739	¥ (8,180)	\$ 7,386

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2008 and 2007 as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current assets-			
Deferred income taxes	¥ 5,588	¥ 6,179	\$ 55,881
Investment and other assets-			
Deferred income taxes	1,599	1,101	15,993
Current liabilities-			
Other	(71)	(59)	(714)
Long-term liabilities-			
Deferred income taxes	(6,377)	(15,400)	(63,774)
Net deferred tax assets	¥ 739	¥ (8,180)	\$ 7,386

9. OTHER GAINS (LOSSES), NET

Other gains (losses), net, for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Gain on sales of property, plant and equipment	¥ 155	¥ 696	\$ 1,548
Loss on sales of property, plant and equipment	—	(168)	—
Loss on disposal of property, plant and equipment	(152)	(202)	(1,519)
Other, net	4	747	44
	¥ 7	¥ 1,073	\$ 73

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses and cost of sales for the years ended March 31, 2008 and 2007 were ¥1,023 million (US \$10,234 thousand) and ¥912 million, respectively.

Note: There was no research and development expenses included in cost of sales for the year ended March 31, 2008.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits	¥ 39,591	¥ 47,385	\$ 395,905
Short-term investments	15,000	3,000	150,000
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(116)	(74)	(1,159)
Cash and cash equivalents	¥ 54,475	¥ 50,311	\$ 544,746

Note: Negotiable deposits were included in "Cash and time deposits" in the previous fiscal year. However, from the fiscal year, negotiable deposits are now treated as marketable securities, in accordance with "Practical Guidelines on Accounting Standards for Financial Instruments (JICPA Accounting Practice Committee Statement No.14, revised July 4, 2007).

The balance of negotiable deposit for the years ended March 31, 2008 and 2007 were ¥15,000 million (US \$150,000 thousand) and ¥8,000 million.

12. SHAREHOLDERS' EQUITY

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code.

The Law provides that an amount equivalent to 10% of cash dividends must be appropriate as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balance of the legal reserve of the Company at March 31, 2008 and 2007, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US \$28,571 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of Board of Directors, subject to limitations imposed by the Law.

13. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2008 and 2007 were ¥4,706 million (US \$47,063 thousand) and ¥4,618 million, respectively.

The leased assets and related expenses of the Companies' finance leases, other than those where the ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Buildings and structures	¥ 12,199	¥ 11,894	\$ 121,988
Machinery and equipment	6,327	6,334	63,266
Other	147	171	1,466
Accumulated depreciation	(9,051)	(8,028)	(90,511)
Accumulated impairment loss	(1)	(4)	(5)
	¥ 9,620	¥ 10,367	\$ 96,204

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Depreciation	¥ 4,557	¥ 4,466	\$ 45,568
Interest expenses	150	152	1,495

Depreciation costs are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current obligation	¥ 4,100	¥ 4,091	\$ 41,003
Long-term obligation	5,629	6,380	56,289
Present value of lease payments	¥ 9,729	¥ 10,471	\$ 97,292
Impairment loss on leased assets	¥ 0	¥ 1	\$ 2

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2008 and 2007 were ¥118 million (US \$1,182 thousand) and ¥118 million, respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the leased assets is transferred to the lessee and are being accounted for as operating leases at March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Machinery and equipment	¥ 647	¥ 466	\$ 6,470
Other	25	25	254
Accumulated depreciation	(262)	(235)	(2,620)
	¥ 410	¥ 256	\$ 4,104

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Depreciation	¥ 102	¥ 104	\$ 1,025
Interest expenses	17	14	168

Interest income is calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest receipts over the lease periods, are allocated to each period by the interest method. The present values of future lease receipts for the Companies at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current obligation	¥ 101	¥ 86	\$ 1,008
Long-term obligation	304	166	3,041
Present value of lease receipts	¥ 405	¥ 252	\$ 4,049

14. CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2008 and 2007, for loans guaranteed amounted to ¥20,372 million (US \$203,723 thousand) and ¥21,800 million, and for notes discounted and endorsed in the ordinary course of business amounted to ¥277 million (US \$2,766 thousand) and ¥159 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Guarantee on loans from financial institutions			
PT. Kutai Timber Indonesia	¥ —	¥ 2,008	\$ —
PT. AST Indonesia	200	236	2,004
Paragon Wood Product (Dalian) Co., Ltd.	—	57	—
Purchasers with housing loans applied	19,961	19,276	199,609
Others	0	0	0
Guarantee on rent payment			
Sumikyo Co. Ltd.	211	223	2,110
	¥ 20,372	¥ 21,800	\$ 203,723

15. DERIVATIVES AND HEDGING ACTIVITIES

The Companies enter derivative contracts as needed in relation to normal foreign currency denominated transactions, and to manage funds within a limited scope. The Companies enter into foreign exchange forward contracts, foreign currency swaps and interest rate swaps. Foreign exchange forward contracts and foreign currency swaps are utilized to hedge currency risk exposure. Interest rate swaps are utilized to hedge against possible future changes in interest rates on borrowings. Some derivative contracts are entered into to manage funds.

Foreign exchange forward contracts and foreign currency swaps carry risks related to changes in foreign exchange markets. Interest rate swaps carry risks related to changes in interest rate markets. The Companies believe that credit risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

With these risks in mind, transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

Hedge accounting is used for derivative transactions.

- (1) Hedge accounting method: Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions
- (2) Hedging method: Foreign exchange forward contracts are utilized for foreign exchange risks
- (3) Scope of hedging: Certain transactions, including planned transactions, in accordance with policies laid out in management regulations
- (4) Hedge effectiveness evaluation method: The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments; therefore, effectiveness evaluation is not carried out.

16. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLANS

The Company and some of its consolidated subsidiaries offer their employees both a lump-sum benefit at retirement and a non-contributory funded defined benefit pension plan. Others offer a lump-sum benefit at retirement only.

These plans are open to employees who meet set conditions, but substantially all employees are eligible.

Retirement benefits are calculated based on the employees basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ (51,303)	¥ (49,376)	\$ (513,026)
Fair value of plan assets	36,239	36,992	362,395
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (15,063)	¥ (12,383)	\$ (150,631)

The components of net periodic benefit costs for the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 3,249	¥ 3,140	\$ 32,487
Interest cost	934	863	9,342
Expected return on plan assets	(1,329)	(1,156)	(13,287)
Recognized actuarial loss	4,533	(1,899)	45,334
Expense of changing accounting method	166	—	1,661
Net periodic benefit costs	¥ 7,554	¥ 948	\$ 75,537

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used for the year ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.7%	3.7%
Recognition period of actuarial gain / loss	1year	1year

17. SEGMENT INFORMATION

a) Industry segment information—

The Companies' business is classified into the following three segments based on the similarities of the types and nature of business:

Timber and building materials: manufacturing or purchasing and sale of timber and building materials

Housing: construction of houses, buildings and their exteriors, gardening, planting, sale of interiors and brokerage of real estate

Other: leasing, insurance agent business and other

The tables below present sales, operating expenses and operating income information by segment.

YEAR ENDED MARCH 31, 2008	Millions of yen					Consolidated
	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	
Sales and contract revenues:						
Unaffiliated customers	¥ 450,889	¥ 406,862	¥ 3,605	¥ 861,357	¥ —	¥ 861,357
Intersegment transfers	20,056	824	12,129	33,009	(33,009)	—
Total	470,945	407,687	15,734	894,366	(33,009)	861,357
Operating expenses	467,615	398,890	14,765	881,270	(27,149)	854,121
Operating income	¥ 3,330	¥ 8,797	¥ 969	¥ 13,096	¥ (5,860)	¥ 7,235
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 219,251	¥ 129,440	¥ 9,071	¥ 357,762	¥ 92,968	¥ 450,730
Depreciation and amortization	3,493	2,492	786	6,772	486	7,258
Capital investment	4,834	5,023	886	10,743	752	11,494

YEAR ENDED MARCH 31, 2007	Millions of yen					Consolidated
	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	
Sales and contract revenues:						
Unaffiliated customers	¥ 500,843	¥ 407,187	¥ 3,643	¥ 911,674	¥ —	¥ 911,674
Intersegment transfers	19,259	593	10,954	30,806	(30,806)	—
Total	520,103	407,780	14,597	942,480	(30,806)	911,674
Operating expenses	512,136	391,194	13,694	917,024	(25,755)	891,269
Operating income	¥ 7,967	¥ 16,586	¥ 903	¥ 25,456	¥ (5,051)	¥ 20,405
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 269,610	¥ 113,276	¥ 9,067	¥ 391,954	¥ 108,182	¥ 500,136
Depreciation and amortization	3,003	2,332	751	6,085	391	6,476
Capital investment	5,281	3,481	811	9,573	(546)	9,026

YEAR ENDED MARCH 31, 2008	Thousands of U.S. dollars					Consolidated
	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	
Sales and contract revenues:						
Unaffiliated customers	\$ 4,508,892	\$ 4,068,623	\$ 36,050	\$ 8,613,565	\$ —	\$ 8,613,565
Intersegment transfers	200,560	8,244	121,290	330,094	(330,094)	—
Total	4,709,452	4,076,867	157,340	8,943,659	(330,094)	8,613,565
Operating expenses	4,676,153	3,988,896	147,651	8,812,700	(271,489)	8,541,211
Operating income	\$ 33,299	\$ 87,971	\$ 9,689	\$ 130,959	\$ (58,605)	\$ 72,354
Identifiable assets, depreciation and capital investment:						
Identifiable assets	\$ 2,192,513	\$ 1,294,402	\$ 90,710	\$ 3,577,625	\$ 929,675	\$ 4,507,300
Depreciation and amortization	34,934	24,920	7,865	67,719	4,863	72,582
Capital investment	48,340	50,232	8,855	107,427	7,517	114,944

b) Geographical segment information—

The Companies' business is classified into two segments based on geographic proximity. Other includes Asia, North America and Oceania.

YEAR ENDED MARCH 31, 2008	Millions of yen			Elimination and / or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥ 838,115	¥ 23,242	¥ 861,357	¥ —	¥ 861,357
Intersegment transfers	2,161	10,767	12,928	(12,928)	—
Total	840,276	34,009	874,285	(12,928)	861,357
Operating expenses	830,358	31,400	861,758	(7,637)	854,121
Operating income	¥ 9,918	¥ 2,609	¥ 12,527	¥ (5,292)	¥ 7,235
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 315,034	¥ 51,838	¥ 366,872	¥ 83,858	¥ 450,730

YEAR ENDED MARCH 31, 2007	Millions of yen			Elimination and / or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥ 891,289	¥ 20,386	¥ 911,674	¥ —	¥ 911,674
Intersegment transfers	2,454	9,945	12,399	(12,399)	—
Total	893,743	30,330	924,073	(12,399)	911,674
Operating expenses	869,954	28,904	898,858	(7,589)	891,269
Operating income	¥ 23,788	¥ 1,427	¥ 25,215	¥ (4,810)	¥ 20,405
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 354,837	¥ 41,420	¥ 396,257	¥ 103,879	¥ 500,136

YEAR ENDED MARCH 31, 2008	Thousands of U.S. dollars				
	Domestic	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	\$ 8,381,149	\$ 232,416	\$ 8,613,565	\$ —	\$ 8,613,565
Intersegment transfers	21,611	107,671	129,282	(129,282)	—
Total	8,402,760	340,087	8,742,847	(129,282)	8,613,565
Operating expenses	8,303,578	313,999	8,617,577	(76,366)	8,541,211
Operating income	\$ 99,182	\$ 26,088	\$ 125,270	\$ (52,916)	\$ 72,354
Identifiable assets, depreciation and capital investment:					
Identifiable assets	\$ 3,150,342	\$ 518,379	\$ 3,668,721	\$ 838,579	\$ 4,507,300

c) Overseas sales information—

As the total overseas sales were less than 10% of consolidated net sales, overseas sales information has been omitted.

18. NET INCOME PER SHARE

The computation of net income per share for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Numerator for net income per share:			
Net Income	¥ 1,115	¥ 11,954	\$ 11,150
Income not available to common stockholders	—	—	—
Income available to common stockholders	1,115	11,954	11,150
Denominator for net income per share:			
Weighted average number of shares issued	177,190,006	177,287,939	

The diluted net income per share for the years ended March 31, 2008 and 2007 were not presented because there were no shares with dilutive effect.

19. SUBSEQUENT EVENT

The Board of Directors of the Company resolved on June 9, 2008 that Sumitomo Forestry Two-By-Four Homes Co., Ltd., a wholly-owned subsidiary of the Company ("Two-by-Four Homes"), be dissolved as of September 30, 2008 and that its Two-by-Four housing business be transferred to the Company.

(1) Scheduled Dissolution Date

September 30, 2008

(2) Financial Data of Two-By-Four Homes as of March 31, 2008

Total assets ¥ 3,158 million

Total liabilities ¥ 4,581 million

Net assets ¥ (1,423) million

The effect of the dissolution on operating profit for fiscal year 2008 is immaterial. But extraordinary loss as a result of the dissolution is expected to incur at 0.6 billion yen due to the equipment disposal and personnel reduction.

REPORT OF INDEPENDENT AUDITORS



■ Certified Public Accountants

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■ Tel: 03 3503 1100

Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

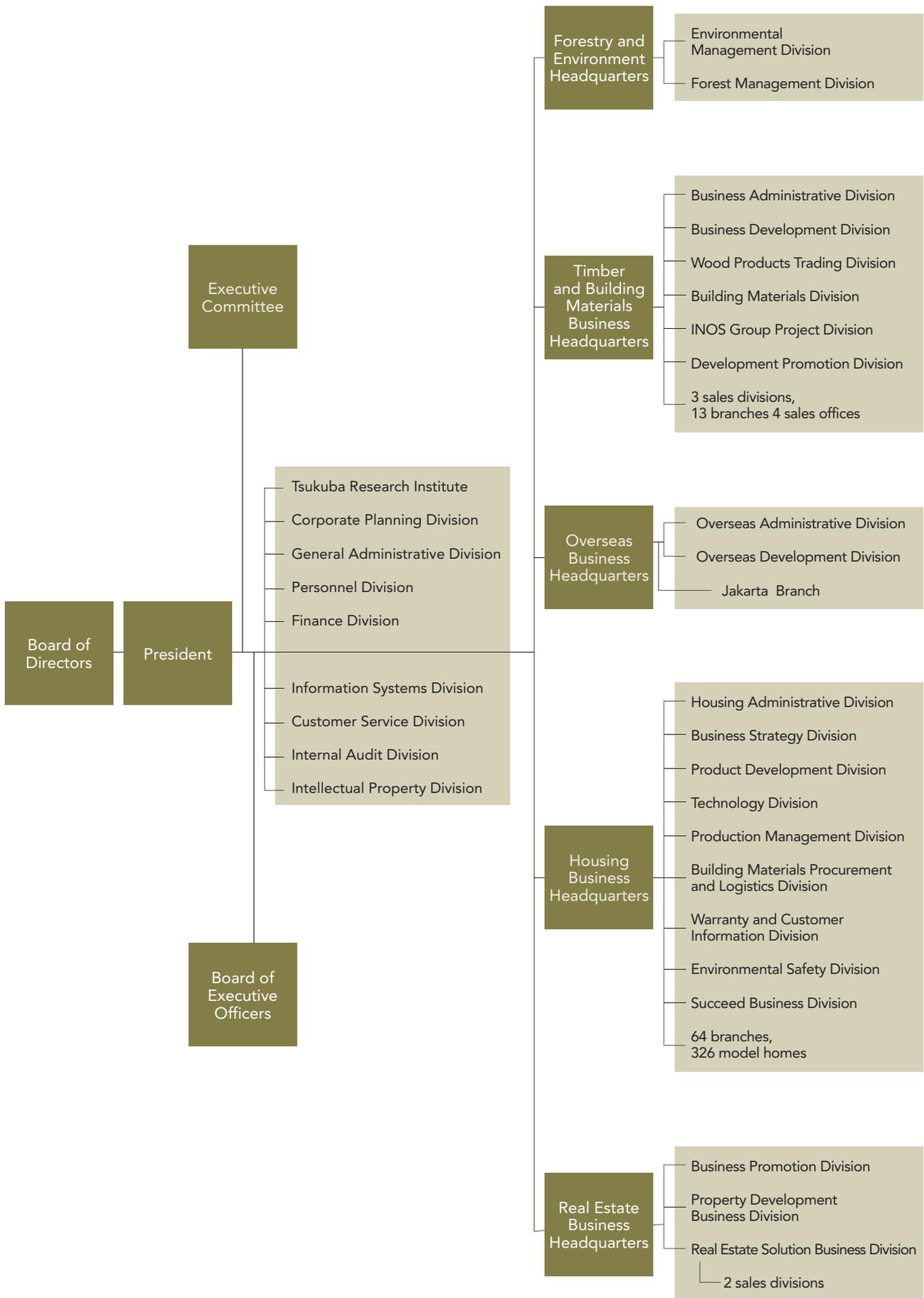
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young Shin Nihon

June 20, 2008

ORGANIZATION CHART (As of April 1, 2008)



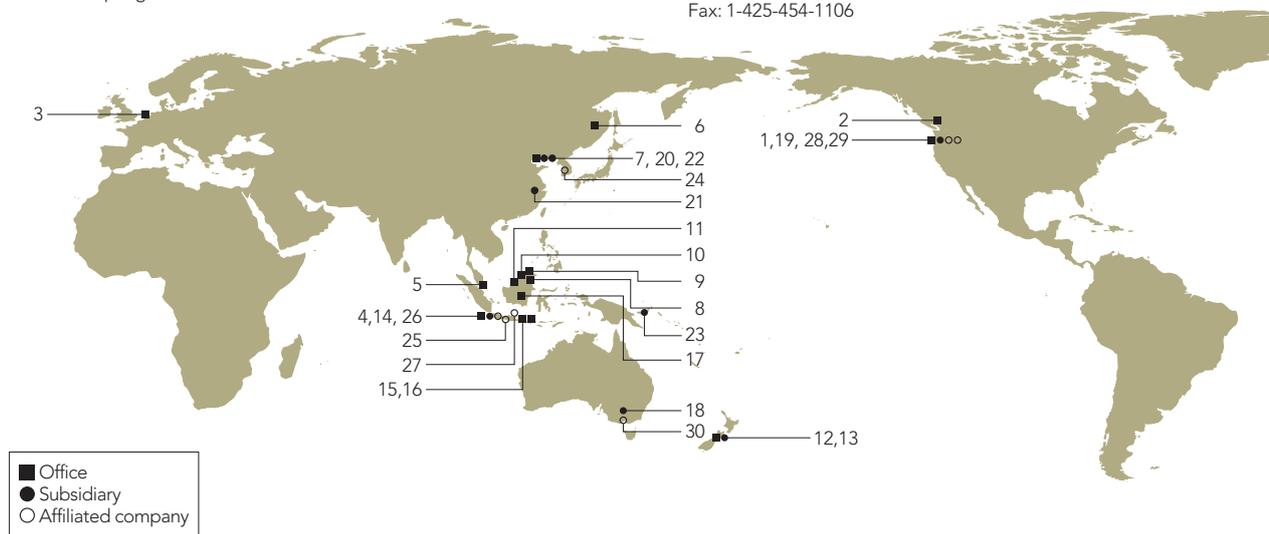
OVERSEAS NETWORK (As of September, 2008)

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#3 Haitian Road, Free Trade Zone,
Dalian, 116600, PRC
Tel: 86-411-87332208/87332218
Fax: 86-411-87332318
E-mail: paragonkenji@aol.com
21. Paragon Wood Product
(Shanghai) Co., Ltd.
D 902, 9th Floor, Pufa Plaza Building D,
1759 North Zhongshan Road,
Shanghai, 200061, PRC
Tel: 86-21-61405828
Fax: 86-21-61405826
E-mail: paragonkenji@aol.com
22. Dalian Sumirin Information
Technology Service Co., Ltd.
Senmao Building 16th Floor,
147 Zhongshan Road,
Xigang District,
Dalian, 116011, PRC
Tel: 86-411-8365-8755/8757
Fax: 86-411-8365-8756
E-mail: sfdln@sifts-cn.com
23. Open Bay Timber Limited
P. O. Box 66, Kokopo, East New
Britain Province, Papua New Guinea
Lot1, Section 40, Tobaining Road,
Kenabot, Kokopo, East New Britain
Province, Papua New Guinea
Tel: 675-982-9827
Fax: 675-982-8906

AFFILIATES

24. Dongwha SFC Housing Co., Ltd.
Dongwha Bldg. 192-4,
Nonhyeon-Dong,
Gangnam-Gu, Seoul,
135-010, Korea
Tel: 82-2-3218-8970
Fax: 82-2-3445-2891
25. PT. Rimba Partikel Indonesia
P. O. Box. 127 KENDAL Desa.
Mororejo, Kaliwungu, Kendal,
Jawa Tengah 51372, Indonesia
Tel: 62-24-8662990
Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id
26. Jakarta Office
Gedung Idola Tunggal Sliipi,
JL. Letjen S.Parmar Kav.67,
Jakarta 11410, Indonesia
Tel: 62-21-5321637
Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id
27. PT. AST Indonesia
KITW Technopark Blok A-01, JL.
Raya Semarang-Kendal KM.12,
Semarang 50152, Indonesia
Tel: 62-24-8664800
Fax: 62-24-8664801
E-mail: asti@ast.co.id
28. Bennett-SFS, L.L.C.
c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004,
U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
E-mail: sfs@sumiforsea.com
29. Cascadia Resort Communities, LLC
c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004,
U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
30. Henley-SFC Housing Pty Ltd
395 Ferntree Gully Road, Mt.
Waverley VIC 3149 Australia
Tel: 61-3-9574-5333
Fax: 61-3-8588-7093



STOCK INFORMATION (As of March 31, 2008)

Stock Exchange Listings: Tokyo, Osaka

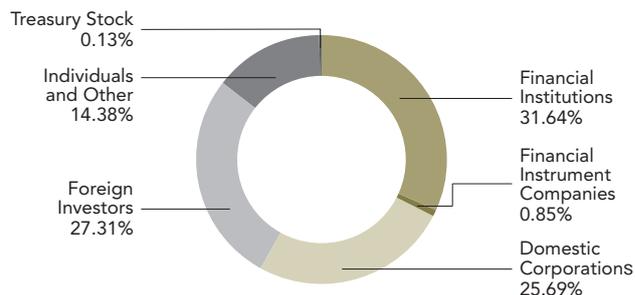
Common Stock Authorized: 400,000,000 shares

Issued: 177,410,239 shares

Number of Shareholders: 12,903

General Meeting of Shareholders: June

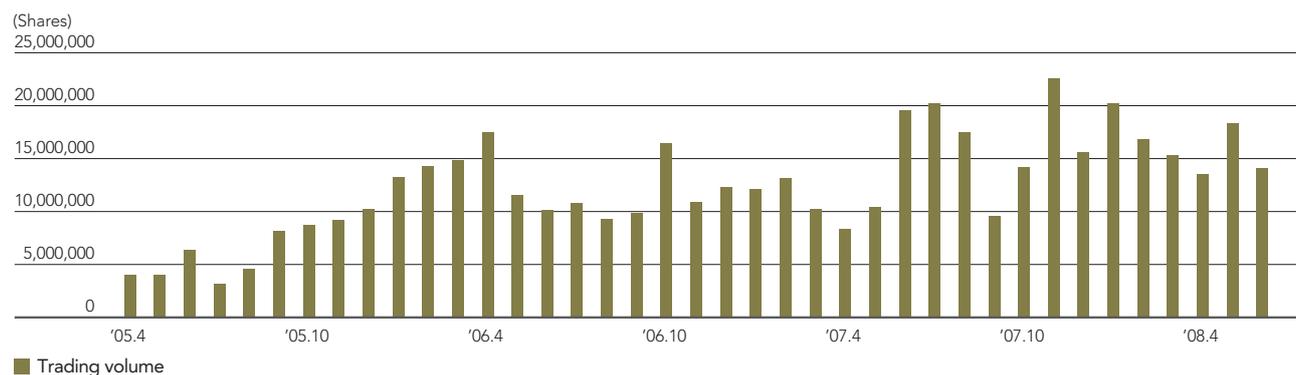
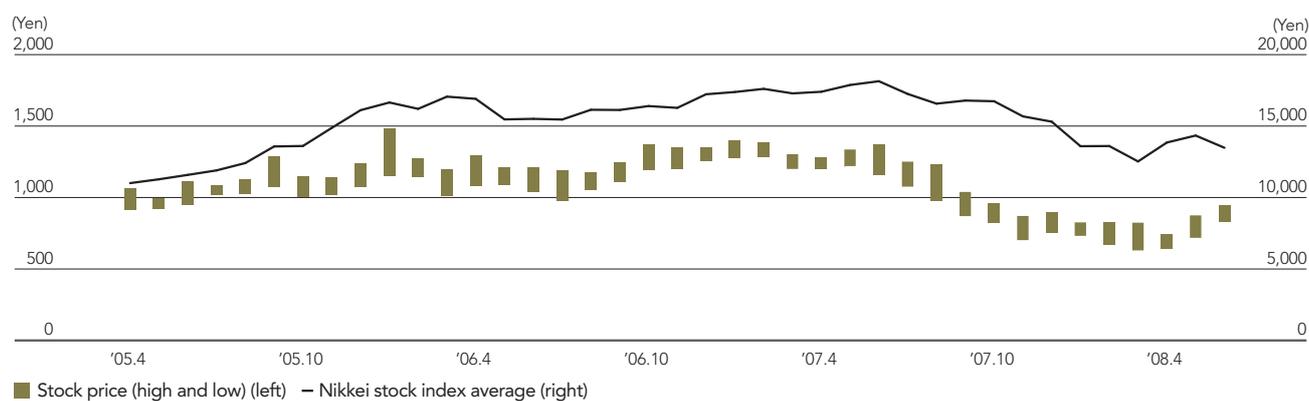
Breakdown of Shareholders:



Major Shareholders:

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.70
The Master Trust Bank of Japan, Ltd. (trust account)	7,599	4.28
Japan Trustee Service Bank, Ltd. (trust account)	6,234	3.51
The Iyo Bank, Ltd.	5,850	3.30
Sumitomo Corporation	4,383	2.47
Sumitomo Life Insurance Company	4,227	2.38
The Hyakujushi Bank, Ltd.	4,198	2.37
Sumitomo Mitsui Banking Corporation	4,136	2.33
Goldman Sachs and Company Regular Account (Standing proxy: Goldman Sachs Japan Co., Ltd.)	3,703	2.09
The Sumitomo Trust and Banking Co., Ltd.	3,408	1.92

Stock Price and Trading Volume (Osaka Securities Exchange):



CORPORATE DATA (As of March 31, 2008)

Company Name:	Sumitomo Forestry Co., Ltd.
Founded:	1691
Incorporated:	1948
Paid-in Capital:	¥27,672 million
Head Office:	Marunouchi Trust Tower North 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan Tel: 81-3-6730-3500 Fax: 81-3-6730-3504
Consolidated Subsidiaries:	51 (Overseas 16)
Associated Companies:	7 (Overseas 5)
Number of Employees (Consolidated):	12,541
Homepage:	http://sfc.jp/english/
Independent Auditors:	SHIN NIHON & CO.
Transfer Agent and Registrar:	The Sumitomo Trust and Banking Co., Ltd. Stock Transfer Agency Department 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

For further information, please contact:

Sumitomo Forestry Co., Ltd.
Corporate Planning Division
Tel: 81-3-6730-3506 Fax: 81-3-6730-3507



SUMITOMO FORESTRY CO.,LTD.

Marunouchi Trust Tower North, 1-8-1, Marunouchi,
Chiyoda-ku, Tokyo 100-8270, Japan
Tel: 81-3-6730-3500 Fax: 81-3-6730-3504
URL: <http://sfc.jp/english/>