



Annual Report 2009

(Year ended March 31, 2009)

The Sumitomo Forestry Group's corporate philosophy—"utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services"—is the foundation of our core businesses: forestry, the distribution and manufacture of timber and building materials, and the design and construction of custom-built wooden homes.

Our origins date back more than 300 years to the opening of the Sumitomo family's Besshi Copper Mine in 1691, and our roots are in forestry. Over the centuries, we have acquired knowledge, gained experience, and mastered technologies related to every facet of wood, from upstream to downstream, firmly establishing the Group as the "Wood Professionals." Especially, *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses—the top brand in wooden houses in Japan—are the embodiment of our expertise with wood, meeting the needs of society for environmentally friendly housing.

We prefer the long-term perspective in implementing business strategies aimed at securing new drivers of growth. We focus on the consistent, stable growth of the core businesses forming the foundation of our earnings. We engage in expanding our horizontal integration into housing-related businesses: remodeling, real estate services, and overseas operations. In these ways, we are devoted to the creation of sustainable and consistent growth into the future.

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Photo: The Group's roots can be traced back to the company-owned forests surrounding the site of the Besshi Copper Mine in Niihama City, Ehime Prefecture.

Sumitomo Forestry Group Operations

Upstream



- Forestry Business
- Manufacturing of Building Materials

1/1,000th

of Japan's land area—41,500 hectares—are forests managed through “sustainable forestry” by the Group, which is also a global manufacturer of building materials.

Timber and Building Materials Business

Midstream



- Distribution of Timber and Building Materials

No.1

We are the leading Japanese trading company in timber and building materials. We also contribute to the sustainability of the world's forest resources.

Downstream



- New Custom-Built Housing
- Remodeling
- Real Estate
- Overseas Housing
- Housing-Related Businesses

Top Brand

We are the top brand in custom-built wooden housing in Japan. We provide safe, reliable, and comfortable homes that meet a diversity of lifestyle needs.

Housing and Housing-Related Businesses

Forward-Looking Statements

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

FINANCIAL HIGHLIGHTS

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

	Millions of yen					Thousands of U.S. dollars*1
	2009	2008	2007	2006	2005	2009
OPERATING RESULTS:						
Net sales and contract revenues	¥823,810	¥861,357	¥911,674	¥791,128	¥723,193	\$ 8,406,223
Gross profit	133,493	135,277	141,117	127,853	125,582	1,362,173
Operating income	6,837	7,235	20,405	15,446	18,466	69,764
Recurring income*2	6,160	7,659	21,259	16,800	18,692	62,854
Net income	1,028	1,115	11,954	10,842	8,014	10,493

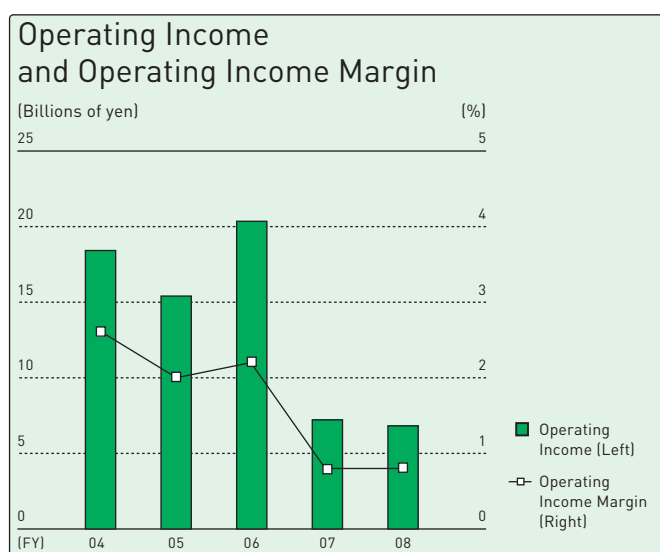
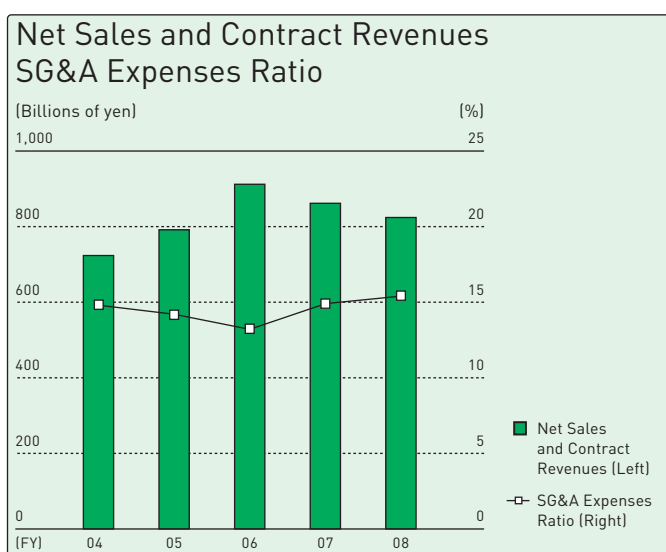
FINANCIAL POSITION:

	Millions of yen					Thousands of U.S. dollars*1
Total assets	427,738	450,730	500,136	464,193	370,684	4,364,674
Interest-bearing debt	49,127	25,816	25,739	22,067	15,580	501,298
Total net assets*3	156,192	173,089	188,855	175,206	152,500	1,593,801

CASH FLOWS:

	Millions of yen					Thousands of U.S. dollars*1
Cash flows from operating activities	(8,161)	26,106	7,084	16,626	6,685	(83,279)
Cash flows from investment activities	(29,062)	(17,587)	(7,102)	(8,998)	(12,895)	(296,556)
Cash flows from financing activities	24,196	(4,262)	665	(14,039)	(7,087)	246,902

	Yen					U.S. dollars*1
PER SHARE DATA:						
Net income	¥ 5.80	¥ 6.29	¥ 67.43	¥ 61.28	¥ 45.28	\$ 0.06
Net assets	880.94	975.99	1,059.20	996.03	866.47	8.99
Cash dividends	15.00	15.00	15.00	13.00	13.00	0.15



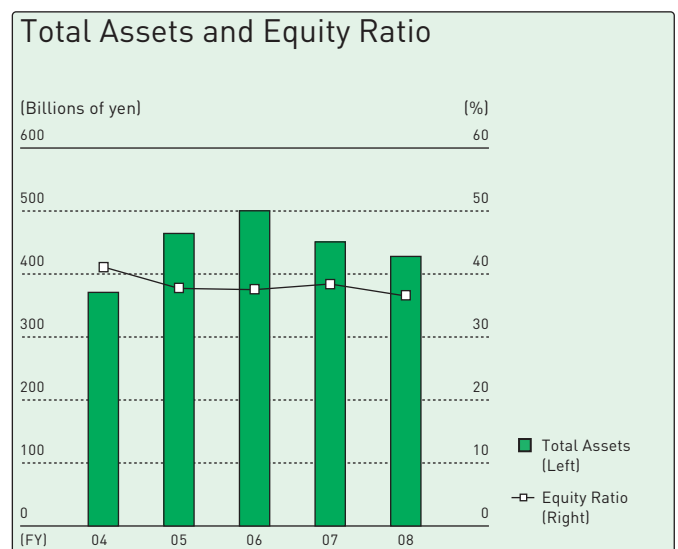
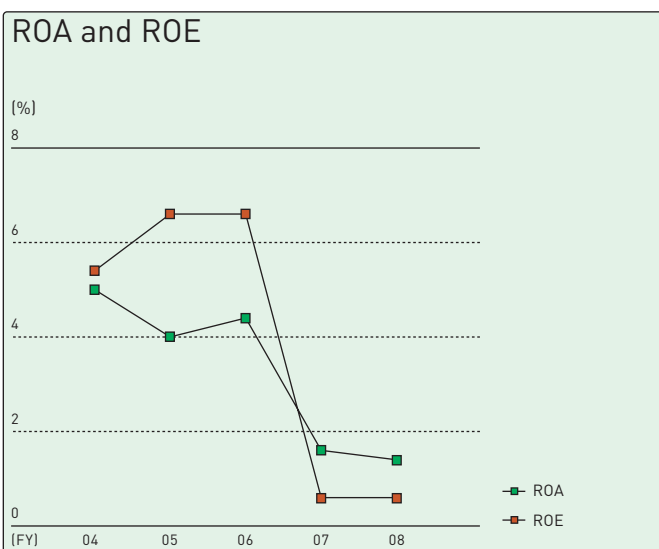
	%				
	2009	2008	2007	2006	2005
FINANCIAL RATIOS:					
Operating income margin	0.8	0.8	2.2	2.0	2.6
Return on assets (ROA)* ⁴	1.4	1.6	4.4	4.0	5.0
Return on equity (ROE)* ⁴	0.6	0.6	6.6	6.6	5.4
Equity ratio	36.5	38.4	37.5	37.7	41.1
Interest-bearing debt ratio* ⁵	23.9	13.0	12.1	11.2	9.3

	Units				
STATE OF ORDERS (ON A UNIT BASIS):					
Custom-built detached housing	8,703	9,301	9,751	9,251	10,076
Collective housing	952	683	1,455	1,288	1,776
Number of employees	12,629	12,541	12,259	11,997	10,477

REFERENCE MARKET DATA:					
New housing starts (nationwide)	1,039,180	1,035,598	1,285,246	1,249,366	1,193,038
New housing starts (Tokyo metropolitan district)	359,100	338,286	431,200	432,005	419,088
Owner-occupied housing starts (nationwide)	310,664	311,803	355,700	352,577	367,233

Notes:

- Japanese yen amounts have been translated into U.S. dollar amounts, at the rate of ¥98 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2009.
- 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.
- Total net assets are calculated 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.
- 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
- Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)





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

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

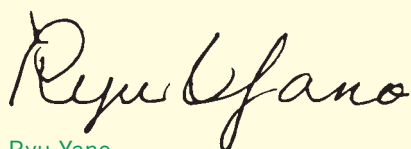
The Sumitomo Forestry Group has been advancing its Long-Term Management Plan, Project SPEED, since fiscal 2007, aiming for enhancing the profitability of existing businesses and nurturing new businesses that will become new sources of profits for the Group. This plan for continuing the Sumitomo Forestry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

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

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

We ask for your continued understanding and support.

September 2009



Ryu Yano
President / Director

INTERVIEW WITH THE PRESIDENT

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

Q1.

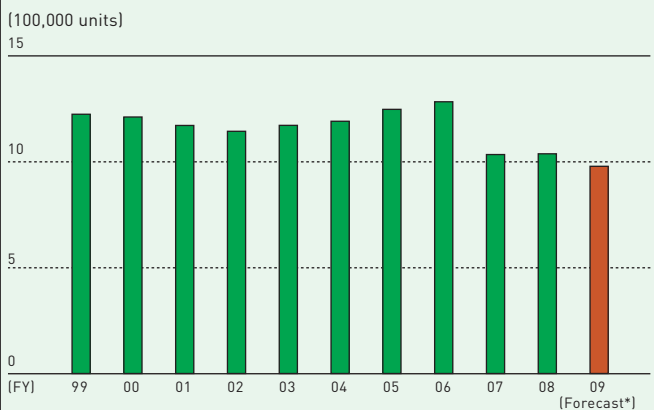
What is your perspective on the market environment surrounding the Sumitomo Forestry Group?

A1. In fiscal 2008, new housing starts totaled 1.039 million houses, of which owner-occupied homes—which strongly impact our business—accounted for about 310,000 new starts, thereby continuing the sluggish trend of the prior year. In addition, the economic recession caused by global financial instability increased the risk of falling incomes and

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

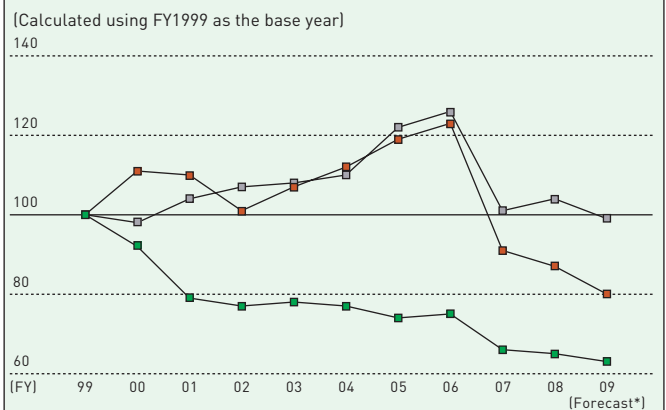
In one of our core businesses, unit sales of custom-built detached housing stagnated, and falling unit prices and declining total volume in our timber and building materials distribution business made for a difficult year. The manufacture of building materials, in both Japan and overseas markets, also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

Forecast for New Housing Starts



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

Housing Starts Index by Housing Type

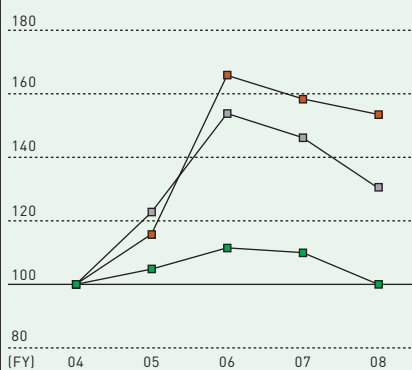


■ Owner-Occupied Housing ■ Built-for-Sale Housing ■ Rental Housing
* In-house estimate

Timber and Building Materials Market

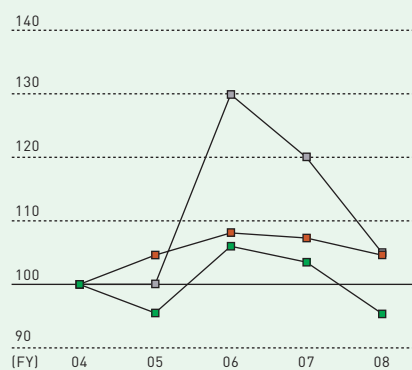
(Calculated using FY2004 as the base year)

Log Price Indices



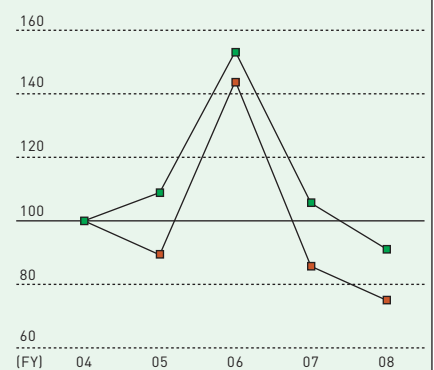
■ Douglas Fir ■ Luan ■ Larch

Lumber Price Indices



■ Japanese Cypress, Squares (Domestic) ■ Douglas Fir, Hiramaku ■ White Wood (laminated posts)

Plywood Price Indices



■ Hard Wood (concrete forming) ■ Soft Wood

Staying on Track—Solid

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

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

Q2.

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

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

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

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

Increasing Efficiency of Model Homes

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



Strategies for Growth

Roadside Sales Offices and One-Stop Shops

Roadside Sales Offices

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



One-Stop Shops

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



etc., can be found in one convenient location.

Overview of Roadside Sales Offices and One-Stop Shops

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

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

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

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

Q3.

Please tell us about your growth strategy.

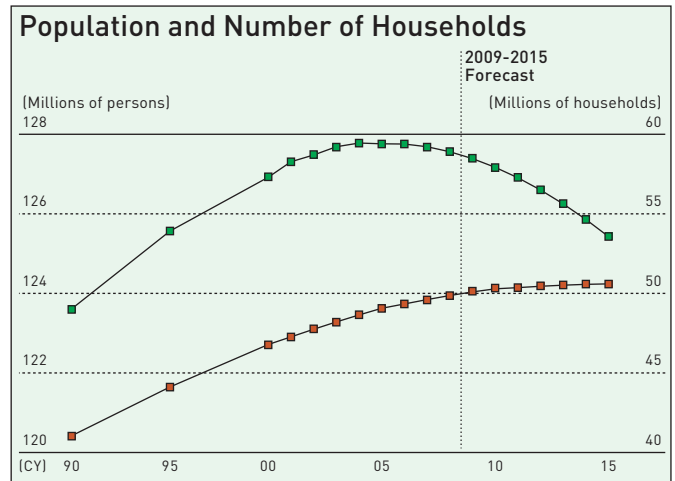
A3. We aim for significant growth by taking the people and knowledge we've gained in our two core operations—New Custom-Built Housing and Timber/Building Materials Distribution and Manufacture—and leveraging both in high-growth markets and areas of business. Under the Long-Term Management Plan, Project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

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

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

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

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



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

Q4.

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

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

INTERVIEW WITH THE PRESIDENT

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

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

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

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

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

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

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

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

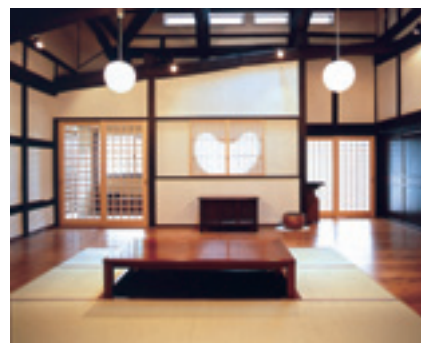
** New Seismic Standards—Seismic standards that were announced when the Building Standards Act was fundamentally revised on June 1, 1981. Wall quantity standards for wood-construction homes were revised, requiring significant structural strengthening. Following the 1995 earthquake in the southern part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



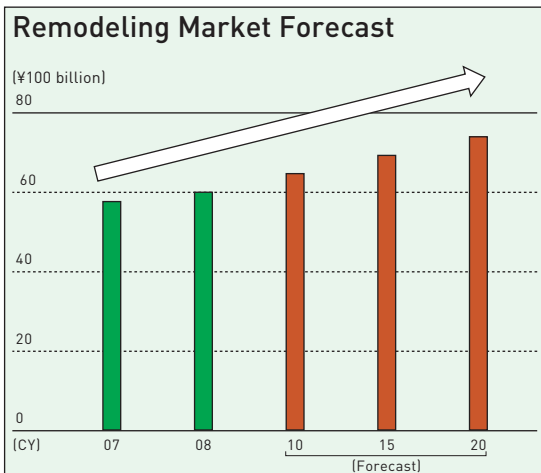
Moldings formed from MDF



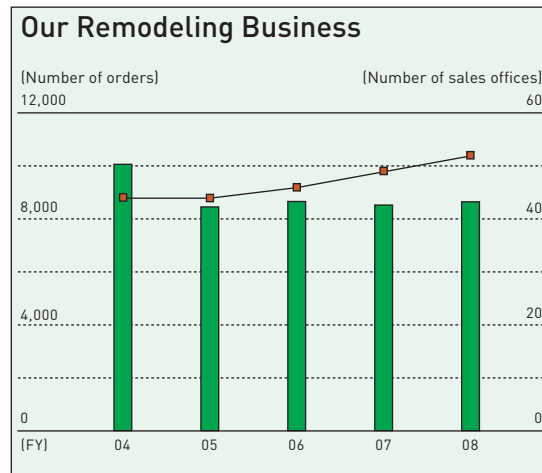
Housing in Australia (Melbourne suburbs)



Remodeling of classic Japanese-style home



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



■ Orders (Left) ■ Sales Offices (Right)

Comparison of Number and Age of Housing Stock

(10,000 units)

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

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

Q5.

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

A5.

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

One example of how the Group is uniquely positioned to support both reduction of CO₂ and coexistence with the environment, from upstream logging to downstream construction of houses, is a carbon offset* project wherein the Group, in cooperation with the government of Indonesia, plants



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

INTERVIEW WITH THE PRESIDENT

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

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

* **Carbon Offset**—the concept of compensating for, or offsetting, greenhouse gases, including CO₂, which are created by daily living, economic activity, etc., and thus are difficult to reduce, by reducing or absorbing greenhouse gases in a separate location.

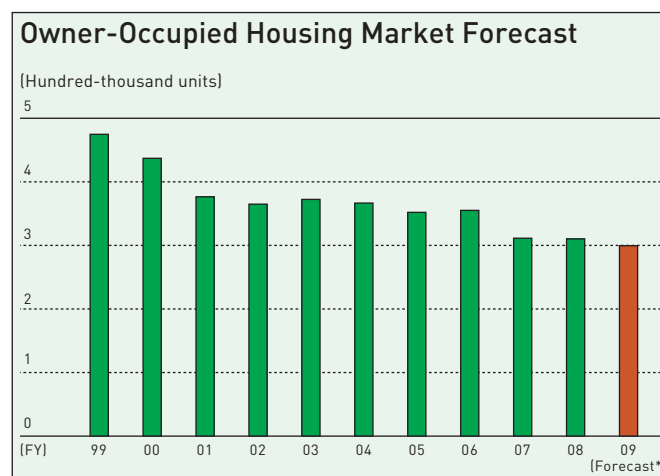
Q6.

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

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

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

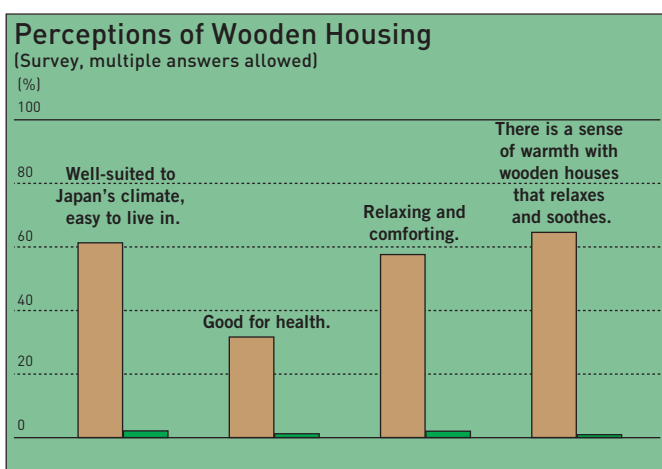
The Excellent Long-Term Housing Promotion Act includes provisions for the use of timber grown in Japan, as well as for the promotion of research and development in technology, including traditional construction techniques that use wood. We believe that with the beginning of the “age of excellent long-term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



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

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

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



Legend: ■ Wooden Houses ■ Non-Wooden Houses [Steel-framed/reinforced steel/concrete structure]

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

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

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

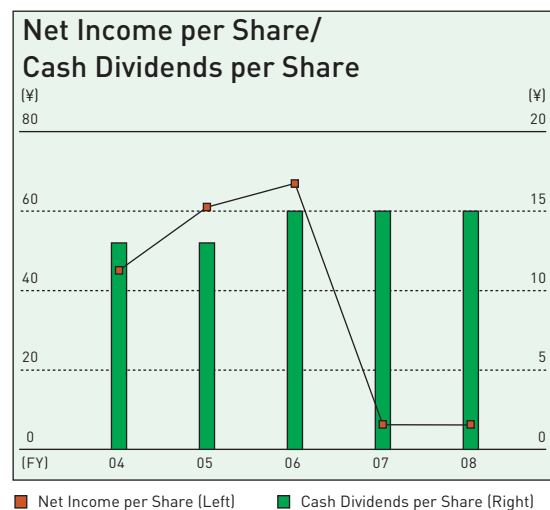
Q7.

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

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

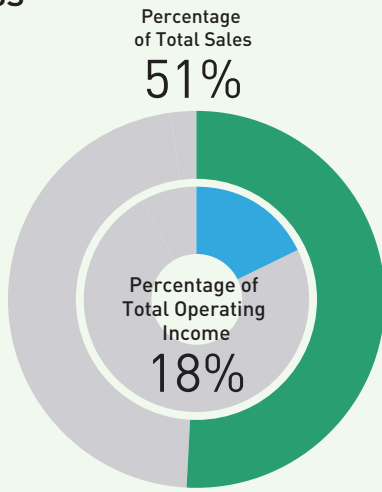
The Group’s corporate philosophy is to “utilize timber as a renewable, healthy, and environmentally friendly natural resource and contribute to a prosperous society through all types of housing-related services.” I believe that creating the connections between the realization of this corporate philosophy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

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

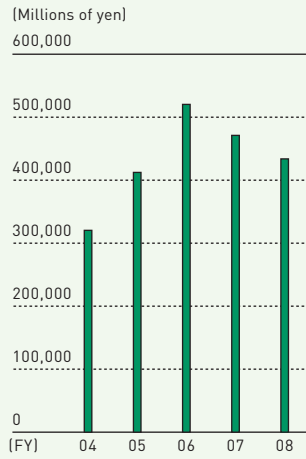


REVIEW OF OPERATIONS

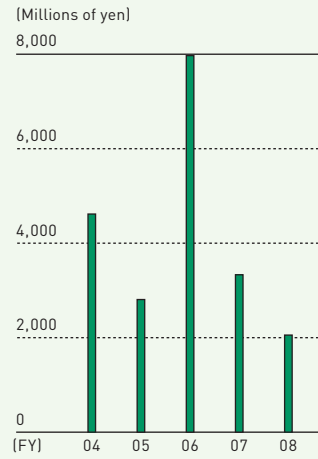
Timber and Building Materials Business



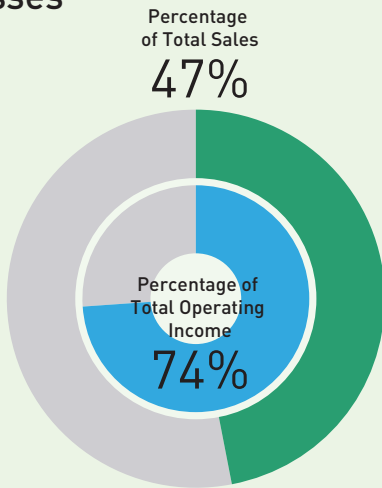
Net Sales



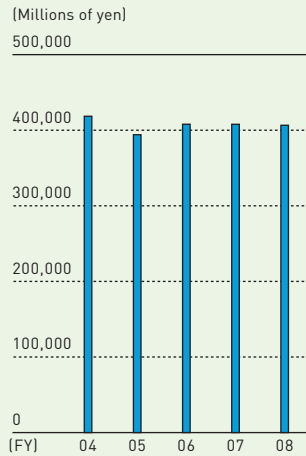
Operating Income



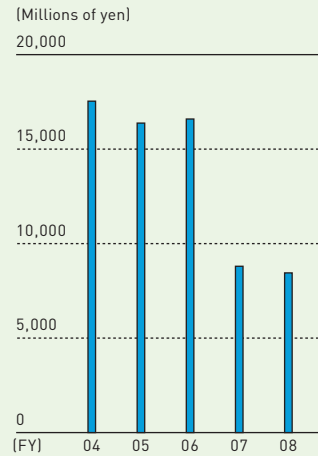
Housing and Housing-Related Businesses



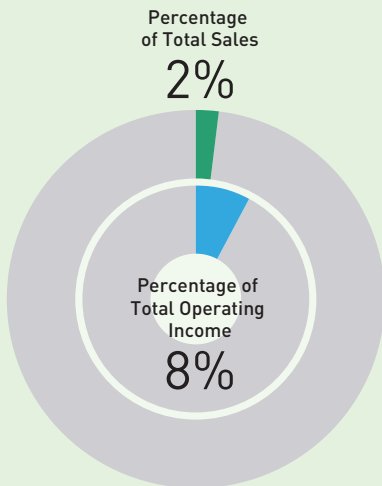
Net Sales



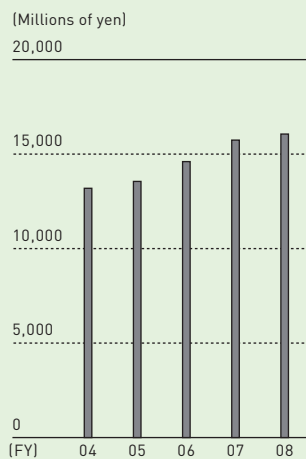
Operating Income



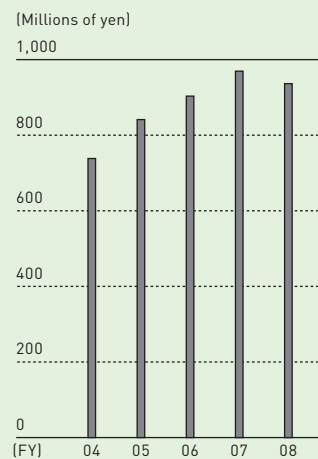
Other Businesses



Net Sales



Operating Income



Notes: 1. Business segment percentages include fiscal 2008 inter-segment transactions.

2. Inter-segment transactions are included in the sales and operating income figures reported for each business.

Upstream

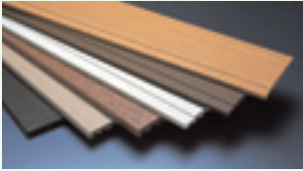
Midstream

Downstream



Forestry Business

Under the philosophy of “sustainable forestry,” in which reforestation and reproduction are endlessly repeated, our cyclical forestry operations efficiently manage approximately 41,500 hectares of company-owned forest in Japan.



Manufacturing of Building Materials Business

From selection of materials to processing, our integrated system manufactures and processes a wide variety of housing materials, centered on wood building materials, including panels, interior materials, storage units, etc. Overseas, the Group uses plantation timber as the raw material to manufacture and process panels and other products such as MDF (Medium-Density Fiberboard), plywood, particle board, etc.



Distribution of Timber and Building Materials Business

Utilizing a network that spans the globe, we are the leading domestic trading company by volume providing timber and building materials. Overseas expansion primarily encompasses Asia, North America, and Oceania.



New Custom-Built Housing Business

A dedicated team of staff is assigned to each customer, responsible for sales coordination, design, manufacturing and interior refinement, with the aim of providing custom-built housing that satisfies each customer’s specific requirements. Our specialty wooden materials are a particularly appealing feature of our custom-built housing.



Remodeling Business

Utilizing its in-house technology and engineering expertise acquired through the Sumitomo Forestry Group’s custom-built housing business, Sumitomo Forestry Home Tech Co. Ltd., our remodeling subsidiary, renovates existing housing into comfortable, functional living spaces.



Real Estate Business

Through the five primary lines of our real estate business: effective utilization of real estate holdings, development, spec homes, brokerage, and management, we aim to create outstanding communities that meet the needs of society through creative planning, the power of an information network developed over decades, and by working closely with our other divisions.



Overseas Housing Business

We provide high-quality wooden houses that incorporate the best aspects of “Japanese living” in the Seattle, Washington area of the United States, as well as in Korea, China, and Australia.



Other Housing-Related Businesses

Our exterior landscaping and urban environment improvement businesses enable us to create comfortable living environments making ample and ideal use of greenery, flowers and varied outdoor ornamentation for terraces, gardens and other housing landscape features.



Lifestyle-Related Business

We are currently engaged in a diverse range of businesses, including the production and sale of farming and gardening materials, insurance provision, information system development, and leasing services, with the objective of helping to ensure that our customers live safe and comfortable lives, while contributing to the betterment of society.

TIMBER AND BUILDING MATERIALS BUSINESS



This business segment is comprised of timber and building materials distribution, building materials manufacturing, and forestry operations in Japan and global markets.

In the international expansion of our extensive timber procurement network, distribution bases, and building materials manufacturing facilities, our goal is to provide timber and building materials ranging from environmentally friendly to high-value-added products to customers in global markets as well as Japan.

As a world leader in the timber and building materials industry, we strive toward mutually beneficial relationships with our customers, suppliers, and regional communities to support overall growth of the industry.

Strengths and Special Characteristics of the Business

Timber and Building Materials Distribution and Building Materials Manufacturing

Industry Leader

As of March 2009, Sumitomo Forestry was the leading building materials sales and trading company in Japan, measured by sales revenue.

Global Manufacturer

From our two facilities in Japan and eight others around the world, we manufacture an extensive range of products from panels to processed wood products such as interior materials.

Procurement Power

Leveraging the procurement and intelligence-gathering strength of our global network enables us to provide a consistent supply of the finest building materials.



Product Development Strength

Our strength in product development has achieved MIZDAS, a high-temperature wood-drying system that shortens the time and cost required to ensure stable quality in structural materials, as well as products that effectively utilize Japanese timber,

such as Super Cypress, a high-performance engineered wood product.

In Pursuit of Wood Material Traceability

With the objective of expanding distribution of lawfully produced timber, we conscientiously trace distribution routes from harvest to production stages.



Information, Intelligence and Creativity

Utilizing the information-gathering and intelligence capabilities that have evolved through operating across a wide range of upstream and downstream business domains, plus the expertise that comes with being a top-ranked builder of wooden houses, we are able to propose and implement unique and creative solutions in manufacturing and distribution.



Forestry Business

Management of Vast Company-Owned Forests

While successfully managing over 41,500 hectares of Company-owned forests in Japan, we continue to broaden our sustainable forestry management in an environmentally sensitive manner.



Use of Carbon Offsets

We have initiated offsetting of the CO₂ generated by our domestic housing business with plantation forests that reduce our carbon footprint to zero. For details please see page 30.



Focus on Environmentally Sensitive Products

Our panel manufacturing operations use plantation timber and wood waste as raw materials in the manufacture of environmentally sensitive products.

Carbon Footprint Marks

Our domestic plywood products are the first in the industry to proudly display "Carbon Footprint*" marks.

* Carbon Footprint marks make it easier to understand the volume of greenhouse gases emitted during the entire lifecycle of products and services by expressing them as a CO₂ value.



Fiscal 2008 Performance Review

Overview

Sales in this segment decreased 7.9% from the previous year to ¥433.6 billion and operating income declined 38.3% to ¥2.1 billion. Since ¥0.9 billion in charges related to variances due to actuarial calculation of retirement benefits funds, which were caused

by the decline in the stock market, were booked in selling, general and administrative expenses, operating income excluding those charges was ¥3.0 billion. Performance in both the Timber and Building Materials Distribution and Building Materials Manufacturing sectors stagnated as both units sold and unit prices fell with flat domestic demand

and worsening market conditions. The building materials manufacturing businesses of overseas subsidiaries saw demand remain steady to a certain degree, despite upward pressure on manufacturing costs due to rising raw materials cost in the first half, even as global demand was contracting. In the second half of the period under review, however, the worldwide financial crisis triggered a drastic contraction in demand and a rapid fall in product prices, negatively impacting business results.

Timber and Building Materials Distribution Business

Sales in the timber and building materials distribution business struggled to grow as demand for materials retreated by a wide margin in the latter half of the period from the impact

* Inter-segment transactions are included in the sales and operating income figures reported for each business.

of the worsening global economic environment. Aggressive inventory management significantly helped in our efforts to maintain earnings. To support our business partners, we invested in the first project of the Limited Partnership Agreement for Investment in the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries, which supports small and medium-size enterprises that are experiencing difficulties with succession due to the lack of an appropriate successor. We also supported home builders in complying with enactment of laws stipulating obligation to carry housing defect liability insurance from October 2009 by becoming the largest shareholder of Jutaku Anshin Hoshō Co., Ltd., a housing defect liability insurance company designated by the Ministry of Land, Infrastructure, Transport and Tourism. Looking ahead to increasing future demand for Japanese timber, we solidified the Group's upstream and downstream distribution networks by centralizing handling of logs and timber



Particleboard factory (P.T. Kutai Timber Indonesia)

from Japanese forests into Sumitomo Forestry Timberland Management Co., Ltd., thus expanding the Group's overall transaction volume in domestically produced materials.

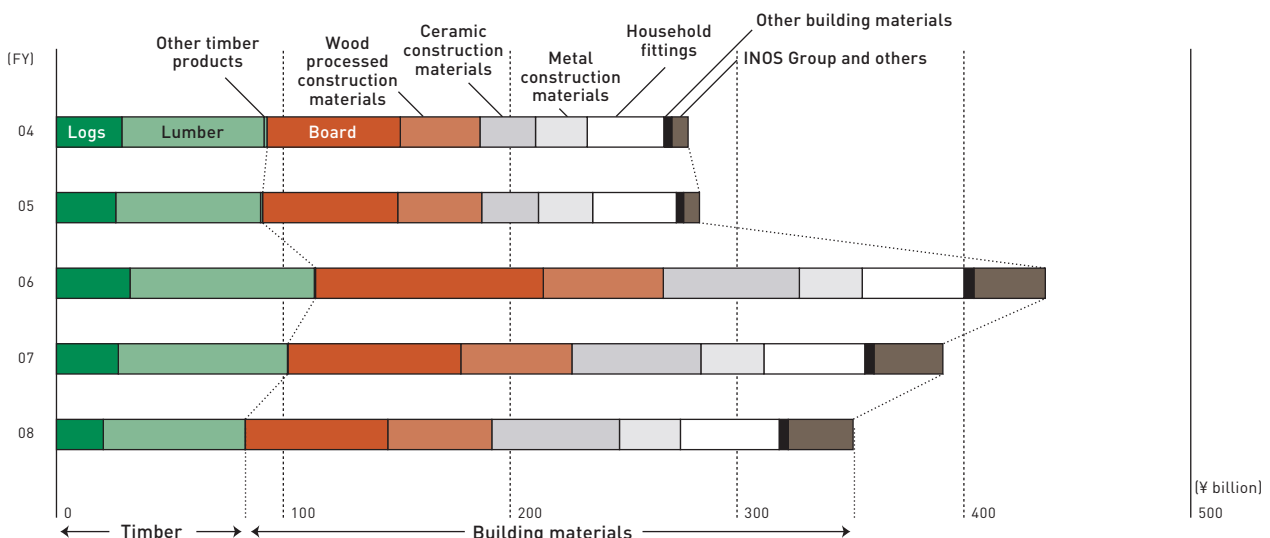
Building Materials Manufacturing Business

The building materials manufacturing business also struggled to grow sales as demand slackened throughout the period, facing raw material price rises in the first half, and global reduction in demand in the second half. Domestically, we worked to manufacture and sell products less affected by market conditions, while at the same time terminating production of non-profitable lines. Overseas, we were able to secure earnings through reduction of inventories, diversification of the customer base, and productivity improvements. As part of our new business efforts, we continue to explore the development of manufacturing facilities aimed at creating future growth in earnings. During the period, we began construction of a new plywood manufacturing facility in China, the world's largest market for all types of wood products. This facility uses poplar wood from plantation forests as its raw materials, leveraging the knowledge and expertise gained in our global panel manufacturing operations.

Forestry Business

The forestry business continues to manage forests in a sustainable and environmentally sound manner, utilizing the long-term perspective of our Forest Management Plan. In company-owned forests, we continue to protect biodiversity, including monitoring surveys of new inhabitation by mammals and birds in forest areas where clear-cutting had been implemented on small areas. In addition to increasing earnings potential by expanding forest areas under management, we followed on the purchase of forestlands in Kochi prefecture with new forestlands in Miyazaki and Kumamoto prefectures, aiming to secure timber resources while revitalizing the forestry industry in Japan.

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





Company-owned forest (Shikoku area in Japan)

Fiscal 2009 Outlook

The forecast in this business segment is for sales of ¥415.0 billion, representing a decrease of 4.3% compared with the previous period, and operating income of ¥2.0 billion, a decrease of 2.6%. When charges related to variances in actuarial accounting for retirement benefit obligations

booked in the previous period are excluded, operating income is forecast to decrease by 32.9%

We believe that the timber and building materials industry will continue to face a decrease in demand resulting from slow growth in housing starts, as well as stagnation in construction demand due to the economic slowdown in the Japanese and global economies. Under this harsh operating environment, we will maintain our top share as the leading company in the industry by enhancing our procurement power in Japan and abroad, while implementing area-focused and differentiation strategies.

In procurement, our competitiveness continues to grow due to the rapid fall of both fuel and transportation costs in the wake of the global financial crisis, and as the rapid and dramatic rise in the strength of the yen lowers the yen-denominated cost of imported materials. We will maintain our competitiveness by providing customers with a stable supply at optimal pricing by leveraging our broad range of overseas procurement routes. We foresee a certain degree of growth in the market for Japanese timber from the perspective of the environment and preservation of national lands. To this end, during the period we consolidated the handling of Japanese logs and timber into Sumitomo Forestry Timberland Management Co., Ltd.

In addition to the efforts we began in this period in support of the Limited Partnership Agreement for Investment in the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries, we will continue implementing our area-focused strategies to build powerful networks in regional areas by establishing, sharing, and connecting with outstanding local distribution companies, utilizing the solution functionality and systems that result from leveraging our broad management resources in distribution, home-building, and real estate: the housing industry.

Our differentiation strategies require us to be the industry leader in reducing environmental impact, to proactively use wood cut from forests that have received Forest Stewardship Council (FSC) certification, plantation timbers, and green energy, and to educate our customers about the enhanced value of such use. Specifically, in our overall plywood volume, we will expand the percentage share of plywood made from plantation timbers and FSC-certified timber that we have recently begun handling. And we will continue to set and achieve numeric targets in our plan to expand those efforts.

In the forestry business, the growth trend in demand for plantation timber will continue to increase against the global background of rising environmental consciousness. As a Group, we continue to augment overseas plantation operations and total area under management, with the overall objective of implementing a system that provides a steady supply of plantation timber. In Japan, under the auspices of our long-term Forest Management Plan, we intend to initiate a new forestry management outsourcing service, in addition to managing company-owned forests in a sustainable manner that is sensitive to the environment.

HOUSING AND HOUSING-RELATED BUSINESSES



This business segment is comprised of the Group's operations in new custom-built housing, remodeling, overseas housing, and real estate.

As the top brand in Japan for custom-built wooden housing, we provide homes that satisfy each and every customer's needs and desires for a safe, reliable, and comfortable residence, making their dream homes a reality through our broad technological expertise and recognized ability to manifest the optimal functional and aesthetic qualities of wood.

Aiming to expand the profitability of business bases, we leverage our expertise in remodeling, detached spec home, condominium, and overseas housing operations.

Strengths and Special Characteristics of the Business

New Custom-Built Housing

Top Brand in Custom-Built Wooden Housing

We continue to be the leading brand in custom-built wooden housing. Our 1,500 sales coordinators work side-by-side with 800 design specialists—all registered architects—to deliver creative solutions that meet the needs of customers for around 10,000 custom-built homes every year.



Three Wood Construction Methods

We are able to address the needs of a diverse range of lifestyles, as well as the varying requirements of lot size and shape, and achieve superior protection against earthquakes and fires, as well as long-lasting durability and energy-saving qualities. We evolved the traditional Japanese wooden post-and-beam construction method into our unique “Multi-Balance Construction Method”—the “Big-Frame Configuration” wooden beam Rahmen structure that allows both large exterior openings and large interior spaces—and the “Two-by-Four Construction Method” noted for its external insulation and central air-conditioning systems.



Consistent Delivery

The combination of our internally trained construction staff with the most capable and trustworthy local home builders delivers a high level of construction prowess, while the Group's procurement network ensures a stable supply of high-value-added building materials, as well as Japanese timber, which accounts for up to 70% of the principal structural members used in custom-built homes.



The Power of Integration

We offer an integrated and comprehensive lineup of services, including custom-built homes, remodeling, landscaping, real estate brokerage and leasing management. We continue to expand our network of roadside stores in the One-Stop Shop format that delivers all of these services in a single location. Our goal is the creation of a support service offering that transcends generations, including the Long Support System that provides for regular inspections for 60 years after the customer takes possession of their new home.



Environmentally Symbiotic Housing

Designing homes with our proprietary *Ryounbou* system, which utilizes the power of nature—sun, wind, and garden vegetation—to provide natural heating and cooling, we are able to greatly improve the energy efficiency of our custom-built homes. And using Japanese timber as the principal structural members throughout the house proactively supports the revitalization of the domestic forestry industry.



Super Cypress

Remodeling Business

Technological Prowess in Remodeling

From seismic retrofitting to renovation of classic Japanese-style homes, we respond to a diverse range of remodeling needs with the construction technologies and experience gained in our custom-built wooden housing business. We also leverage the equity of the *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses brand in bringing the aesthetic qualities of wood to condominium remodeling.



Before

After

Overseas Housing Business

Best Japanese Quality to Overseas Customers

Working in close conjunction with our timber/building materials distribution and manufacturing bases, we are expanding our high-quality, high-functionality housing businesses in the United States, Korea, China, and Australia.



Project under construction (Korea)

Real Estate Business

Building the Brand

We continue to grow through land development and housing subdivision projects that have visual consistency with their environs, building communities where people can live comfortably, and benefiting from the know-how and brand equity gained from our housing businesses.

Meeting the Needs of a Graying Society

By focusing on the perspective of housing that meets the needs of an aging society, our businesses related to seniors and care-giving facilities continue to grow.



Private pay nursing home, constructed by the Company

Fiscal 2008 Performance Review

Overview

Sales in this business segment totaled ¥406.4 billion, a slight 0.3% decline compared to the previous period, with operating income of ¥8.4 billion, a 4.0% decrease. As a result of booking ¥3.8 billion in charges related to variances due to actuarial calculation of

retirement benefits funds into selling, general and administrative expenses, the operating income excluding those charges was ¥12.2 billion. Looking at unit sales of custom-built detached homes, two-by-four construction houses declined by 17.4% compared with the previous period to 261 units, and our primary line of business, wooden

post-and-beam construction houses, recorded only a slight decline of 0.6% year-on-year, resulting in a total of 9,297 units built, a 1.2% decrease vs. the previous period. We were able to maintain earnings at levels comparable to the previous period, with orders for wood-construction apartment units increasing 29.9% to 674 units, detached spec homes growing 22.0% to 144 units, the effects of cost-cutting in advertising and promotional expenses, and increased profits from the remodeling business.

New Custom-Built Housing Business

In the custom-built detached housing business, we made efforts to strengthen the earnings base by reallocating management resources, following re-evaluation of the sales organization and sales exhibition strategy, with the objectives

* Inter-segment transactions are included in the sales and operating income figures reported for each business.

of increasing share and improving the efficiency and efficacy of our staffing and cost structures, even as the market continued to shrink. In October 2008, we merged and integrated the business with Sumitomo Forestry Two-By-Four Homes Co., Ltd., which specializes in new custom-built homes using the two-by-four construction method. By sharing the respective companies' home-building know-how and reducing the cost of production and materials, we expect to create synergies as well as a sales organization better able to make a wider range of proposals that leverage the special characteristics of each construction method. We also continued the expansion of the One-Stop Shop format for our integrated sales offices that bring together in one location the Group's housing-related products and services, in order to broaden sales organizations that are deeply rooted in their local communities and are able to identify and appreciate consumer needs in finer detail. In parallel with these efforts to build sales organizations matched to the character of local communities, we focused on increasing orders received by opening *Sumai Haku* housing fairs at 27 locations around Japan, allowing customers to experience house-building firsthand, as well as displaying full-size structural frameworks and interior/exterior finishing materials. In product development, we launched revised specifications for the "MyForest" series, increasing the share of Japanese timber up to 70% of the principal structural members used, as well as the "MyForest (GS)" line of seismic energy-absorbing panels to meet the standards designated by the Ministry of Land, Infrastructure, Transportation and Tourism. In addition, we continued to expand our product line-up by introducing the "MyForest-SelectOne" series of pre-planned products aimed at the first-time buyer, which emphasize layouts with spaces designed for easy living and flexibility in adapting to changes in family configuration and lifestyles.

In the apartment business, we focused on increasing orders received by offering proposals that fully integrate the services of the Group. For example, Sumitomo Forestry Residential Co., Ltd.* began offering an end-to-end leasing/rental management solution for multi-unit residential and other structures, and marketing our creative ability to

propose plans that meet the requirements imposed by the lot size and shape, and which bring out the best aesthetic qualities of wood in wood-construction apartment buildings.

* Formerly, Sun Step Co., Ltd., which changed its trade name from April 2009.

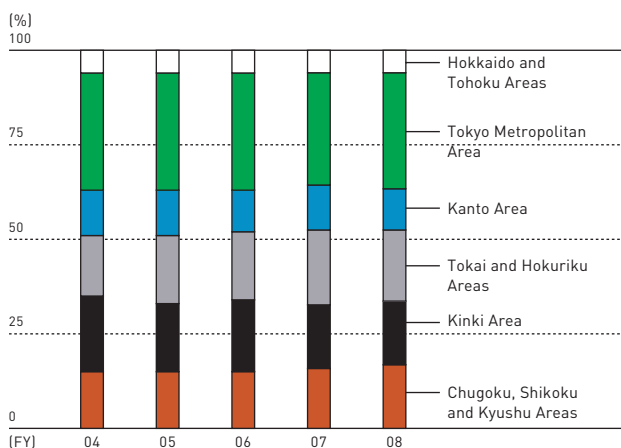
Remodeling Business

In the remodeling business, we strengthened our sales channels by hosting periodic events including on-site tours, construction of new sales branches, and winning new customers via the Internet. We made efforts to increase orders received from the medium and large-scale properties sector by creating a new sales promotion tool, a book entitled, "Remodeling with Old Warmth and New Knowledge," that introduces case studies of using the latest technologies to remodel old homes. Further, in October 2008, we merged Sumirin Maintenance Co., Ltd., which had been providing after-sales maintenance services for *Sumitomo Forestry Home* houses, into Sumitomo Forestry Home Tech Co., Ltd., which specializes in remodeling, as part of our plan to further increase our capacity in after-sales maintenance services, targeting demand in the housing stock market, and aiming for improved operational efficiencies. One of this company's projects in remodeling construction was selected by the Ministry of Land, Infrastructure, Transport and Tourism as a "Pioneering Model Project for High-Quality, Long-Term Housing" (Retrofitting of Existing Homes category) in May 2009. This project is a proprietary business model aimed at the revitalization of existing structures to the highest degree, and that features the ability to forecast retrofitting and maintenance requirements, using original technologies to capture the basic functions related to seismic resistance, durability, energy-saving, and maintenance management.

Overseas Housing Business

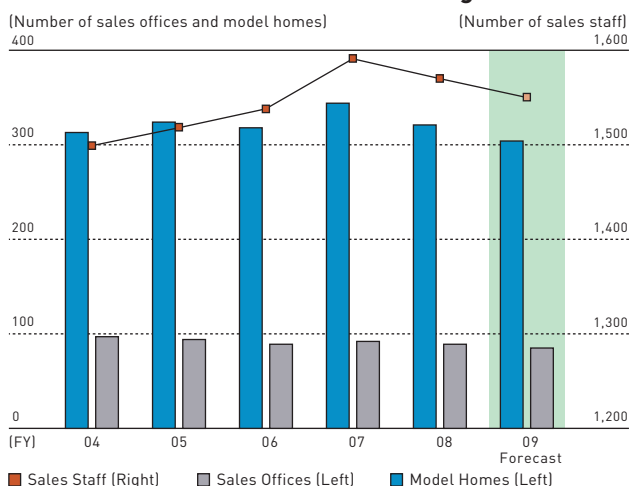
In addition to our operations in the United States, China, and Korea, as the first step in entering the detaching housing market we launched development and sales of spec

Custom-Built Detached House Orders by Region



* Figures before FY 2006 are about post-and-beam construction method.
 * Sumitomo Forestry Two-By-Four Homes transferred its business to Sumitomo Forestry in October 2008. As a result figures from FY 2007 are comprised of the sum of post-and-beam construction method and two-by-four construction method.

Sales Staff, Sales Offices, and Model Homes in the Custom-Built Detached Housing





Test house designed for environmental symbiosis at the Tsukuba Research Institute.

homes via a newly created joint venture with a local partner in Australia. The debut project of the joint venture sold out almost immediately after sales began, a promising start by any standard.

Real Estate Business

The real estate business leverages the comprehensive strengths of the entire Group to create high-value-added proposals that address the housing and lifestyle needs of generations of customers. One example is the *Shizuoka Aoi-no-Mori* Project where, under the keywords of health, medical, and nursing care, this real estate development project meets the needs of its local community by attracting sports and fitness facilities and medical clinics, including a private pay nursing home that we began managing, all located on the site of a former factory of a subsidiary company. In China, we established a joint venture with a local partner that aims to provide information and brokerage services for high-quality housing in Japan to Chinese exchange students, whose numbers continue to grow every year, and also began operating a residential facility for exchange students.

We continued our stable growth in the detached spec home business by providing products that meet the needs of local communities, specifically targeting the first-time buyer.

Fiscal 2009 Outlook

Sales in this business segment are forecast to decrease 0.3% year-on-year to ¥405.0 billion. Operating income is forecast to be ¥12.2 billion, an increase of 44.4%. When the impact of charges for actuarial accounting for retirement benefit obligations is booked in the previous period is

excluded, operating income will decrease by 0.2%, compared with the previous period.

Against the backdrop of stagnant wages due to the economic recession and worsening employment prospects, the direction of investment in housing remains unclear, and the general view of slightly less than one million new housing starts is predicted to fall short of the previous year's level. Thus, we forecast that more time will be required before a full recovery in demand is realized. As a Group whose businesses include wood houses that primarily use Japanese timber, however, we do see positive drivers of growth in demand coming from government policy initiatives launched in 2009 that benefit housing, offering the potential homebuyer a set of advantageous conditions. In addition, the Excellent Long-term Housing Promotion Act enacted in June 2009 makes clear provisions for the promotion of wood-construction housing and increased use of Japanese timber from the perspectives of reducing global warming and creation of a recycling-oriented society. We are making every effort to secure earnings through specific measures under strategies for key areas such as sales, technology/products, cost and expense reduction, and group companies.

Our sales strategy calls for restructuring of the sales organization by flattening the organizational structure of sales branches, and clarifying responsibility for profit and loss management at each branch. In April 2009, Owners Support Groups were established at every branch of the Housing Division to provide a unified point of contact for all 220,000 owners of the houses we've built, in order to more effectively cultivate business from the existing stock of homes. To create sales channels outside of the traditional exhibition sites, we launched a new corporate marketing department targeting sales to corporations and their employees, as well as to enhance our information-gathering capabilities. To strengthen the apartment business, we shifted staff from the custom-built detached housing business and increased coordination with Sumitomo Forestry Residential Co., Ltd., which specializes in rental housing property management.

Our technology and product strategy calls for the development of products that can be provided at competitive prices, while addressing specific needs for zero-energy, zero-emissions, minimized CO₂, etc., which will be required by next-generation housing.

Under our cost and expense reduction strategy, we will implement restructuring of our production systems, and reduce construction expenses and materials costs while increasing productivity, not sacrificing build quality. In fiscal 2009, we plan to decrease the number of exhibition sites from 321 to 304, a reduction of 17 sites, and lower indirect costs by integrating back-office functions and streamlining branch office infrastructure. We will also aim to reduce running costs by advancing the conversion of existing branches into roadside and One-Stop Shop formats.

Our group company strategy will primarily focus on expanding orders received for remodeling work in conjunction with the Owners Support Groups launched by Sumitomo Forestry Home Tech Co., Ltd., and expanding the environmental greening business through Sumitomo Forestry Landscaping Co., Ltd., including building rooftop greening, etc., in response to heightened environmental consciousness. The Group pledges to work as one to continue reducing construction costs and secure earnings based on the consistent orders to Sumitomo Forestry Home Engineering Co., Ltd., which manages housing construction.



OTHER BUSINESSES

The Sumitomo Forestry Group offers diversified services intrinsically linked to everyday living, including home & property insurance agency services, the manufacture and sales of farm and garden materials, and other services that enable our customers to achieve peace of mind and satisfying lifestyles in comfortable homes.

Strengths and Special Characteristics of the Business

Expanding Housing-Related Businesses

We provide a range of services, including home & property insurance agency for our housing customers, as well as engaging in the sale and manufacture of farming and gardening materials, etc., for a wide range of consumers.

Supporting the Group

We support the Sumitomo Forestry Group's entire range of businesses around the globe by providing Group companies with information systems development, leasing, and other services.

Fiscal 2008 Performance Review

Overview

Other Businesses recorded sales of ¥16.1 billion, a 2.0% increase compared with the previous period, and operating income of ¥0.9 billion, a decrease of 3.4%. Operating income excluding the effects of charges related to variances due to actuarial accounting for retirement benefits was ¥1.0

billion. The majority of earnings from Other Businesses are attributable to Sumirin Enterprises Co., Ltd., a subsidiary that provides Group customers with property insurance agency, leasing, and other services.

Fiscal 2009 Outlook

This business segment, which is centered on providing services to the Group, will improve the earning potential of the Group overall through response flexibility, ensuring smooth operations within the Group even as housing market conditions remain flat. Sumirin Enterprises Co., Ltd., which provides insurance agency

services to about 50% of the Group's housing customers, will aim for increasing that share, as well as providing services deeply rooted in local communities, and work in close cooperation with the One-Stop Shop conversion initiatives of the housing business.

* Inter-segment transactions are included in the sales and operating income figures reported for each business.

Special Feature: Homes for the Age of Environmental Symbiosis

The Sumitomo Forestry Group integrates environmental considerations related to “wood” and “living” in a variety of forms for the *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses designed for the age of environmental symbiosis.



Company-owned forests in Kyushu.

As consciousness of the environment grows globally, the industrialized nations as a whole have proposed the long-term objective of an 80% reduction in greenhouse gas emissions by 2050. Looking at global economic trends, economic policies that emphasize preservation of the environment are gaining attention, beginning with the Green New Deal in the United States, which calls for development of energy-saving technologies and nurturing the foundations of a society with a low carbon footprint.

The heart of our business—wood—is deeply and inextricably connected to our concept of coexistence with the environment. Our roots date to 1691, and over the centuries, our businesses have grown steadily to include forestry, timber and building materials distribution and manufacturing, and housing businesses in Japan and around the world. Our houses are not merely the embodiment of more than three centuries of experience and knowledge, but also represent our commitment to and sense of mission for “realizing a prosperous society”—our corporate philosophy.

Our businesses are built upon knowledge and expertise in construction technologies, design concepts, the materials we use, maintenance, and housing lifestyles of the future. Our commitment to the environment is evident in each of those areas and in all of our businesses.

The Basic Act for Housing, enacted in 2006, emphasizes the importance of high-quality housing that lasts for generations. Toward this end, 2009’s Excellent Long-term Housing Promotion Act stipulates preferential treatment, including reduced taxes on mortgages and housing investment, for housing that is highly durable and environmentally sensitive. Other laws also provide for subsidies for installation of home fuel cells and solar energy to reduce CO₂ emissions.

Sustainability is the key theme of environmental movements in Japan and abroad, all of which seek ways for the peaceful coexistence of environmental protection and economic activity.

We share this theme, which we have expressed as “Symbiosis with the Environment,” since the founding of the Sumitomo Forestry Group three centuries ago.

We would like to share the thinking that drives our business activities and explain how “Symbiosis with the Environment” is realized in the houses we build.

The Technology behind Environmentally Sensitive Houses

CO₂-Fixing Effect of Wooden Housing and Promotion of the Use of Japanese Timber

Enacted in June 2009, the Excellent Long-term Housing Promotion Act calls for the promotion of wooden housing and expanded use of Japanese timber as measures to protect the environment.

Even before the enactment of this Act, we have been focused on promoting the environmental benefits of wooden housing, especially its CO₂-fixing effect*—the concept that “building a wooden house is like creating a forest in your town.” We have also long been committed to the proactive use of Japanese timber as a means to support the revitalization of domestic forestry. Today, up to 70% of the principal structural members used in the houses we build are Japanese timber.

* The effect of absorbing CO₂ and storing it as carbon.

Ryounbou—the Natural Heating and Cooling System

Some 70% to 80% of the CO₂ emissions generated over the life of a house are said to be from the energy consumed while living in it. Heating and cooling of homes are the primary components of energy use, along with hot water supply, lighting, and use of electrical devices.

We reduce impact on the environment by installing the latest heating and cooling systems and devices. Moreover, we achieve further reductions through our proprietary *Ryounbou* design process. The *Ryounbou* design process uses the natural power of the sun, wind, and garden vegetation to lessen the heat of summer and the cold of winter. Using proprietary simulation software, we are able to confirm the effects of environmental impact reduction for each and every home we build. In this way, we are able to provide a comfortable living environment that reduces reliance on traditional heating and cooling systems and to raise the environmental consciousness of the people who live in these homes.

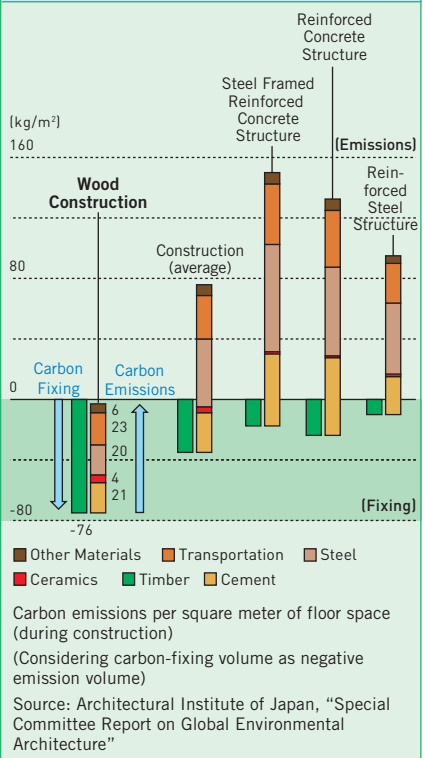
Long-Term Warranty and Maintenance System

To enable our customers to enjoy a comfortable living environment for generations to come, we offer a 20-year warranty* for the structural framework and water-proofing of our homes, as well as a maintenance program that is available up to a maximum of 60 years. We provide not only maintenance of

CO₂-Fixing Function of Wooden Housing

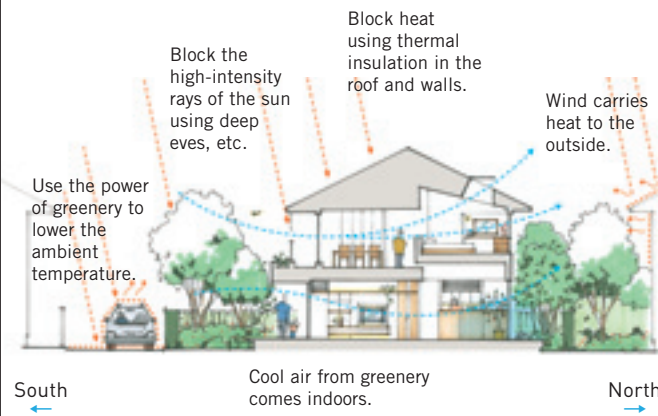
Construction of wooden housing consumes less energy during construction, making it possible to greatly reduce carbon emissions. And the volume of carbon fixed is greater than that of other types of building structures. It is said that the wood used in a single wooden house stores approximately six tons* of carbon, equivalent to that stored in about 900 square meters of forest.

* Estimation based on a wooden house with floor space of 136 square meters.

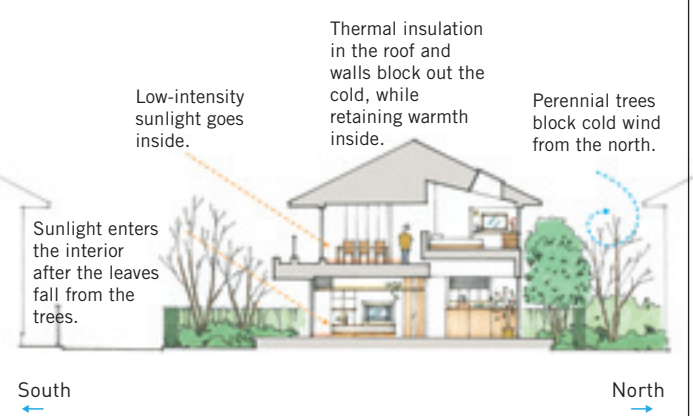


Ryounbou Design Concept

Houses that are cool in the summer



Houses that feel warm in the winter



the durability of the house, but an excellent-quality, long-lasting home for the people who live there, providing true ease-of-living across life stages and generations.

** In addition to a ten-year guarantee, we extend the warranty on the structural framework and water-proofing an additional ten years when we are contracted to perform for-fee maintenance work, such as pest control treatment, that we deem necessary. For houses qualifying under the stipulations of the Excellent Long-term Housing Promotion Act, the warranty is for a maximum of 30 years.*

Development of the Most Advanced Technology

In addition to the *Ryouonbou* design concept and our long-term maintenance programs, we continuously conduct research and development of leading-edge technologies to provide a safe and comfortable home that lasts for the long term.

We have developed and deployed products that enhance the durability of our homes, including: Super Cypress laminated engineered wood for structural use, which has approximately 1.2 times the strength of solid wood; *Kizure* Panels, which make efficient use of forest thinnings; and Seismic Energy-Absorbing Panels that convert seismic energy into thermal energy, providing protection of the home from earthquake damage.

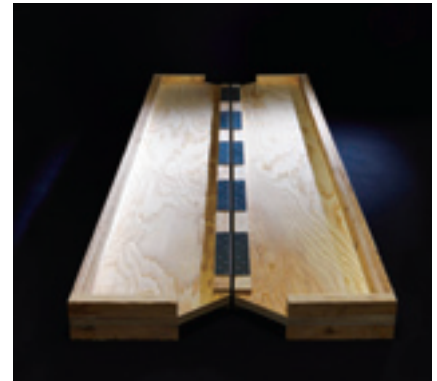
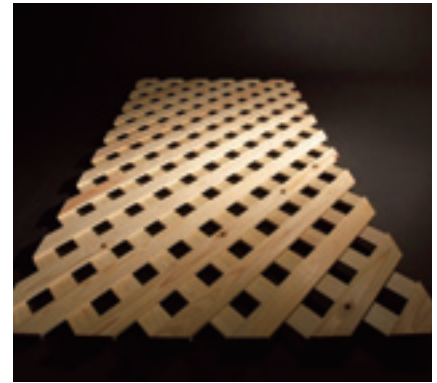
Reducing Environmental Impact in the Timber and Building Materials Distribution and Manufacturing Businesses

Acting Responsibly as the Leader in Timber and Building Materials

In fiscal 2008, we achieved a 70% utilization ratio of Japanese timber used in principal structural members in the houses we build. Japan's self-sufficiency in wood materials, however, is only 24%*¹ and the supply requires further stabilization, even for cypress, the wood we mainly use for principal structural members. As the leading company in the timber and building materials industry*², we are focused on promoting the use of Japanese timber as a means to revitalize the Japanese forestry industry, thereby helping to secure a more stable supply chain.

1. Source: Forestry Agency, "Wood Material Supply and Demand Table 2008"

2. Number one in sales among domestic building materials trading companies as of the year ended March 2009.



From top: Super Cypress, *Kizure* Panels, Seismic Energy-Absorbing Panels

MyForest-Solabo (Reduced CO₂ Model Specification) Reduces CO₂ Emissions by 65%* over the Life of the Home

Using the *Ryouonbou* design concept and a double solar system—solar power-generation and solar water-heating—this model specification reduces CO₂ emitted during the period the home is occupied by about 65% compared with other houses built to the new energy-saving standard. After taking possession, residents can share their CO₂-reduction scheme with other owners via a dedicated website. Launched in February 2009, this model was selected by the Ministry of Land, Infrastructure, Transport and Tourism as a fiscal 2008 "Model Business Promoting Reduced CO₂ in Houses and Buildings."

* Calculated on the basis of a two-story model plan with floor space of 130.83 square meters for a family of four in Tsukuba City, Ibaraki Prefecture. Since the calculations were based on certain conditions in the model plan, actual performance may vary.



Timber Procurement Standards

Destruction of the world's forests is a serious problem. The world's forests are shrinking by about 7.3 million hectares annually. In Japan, a great many plantation forests, which make up approximately 40% of the total domestic forest area, are left untended, leading to their rapid decimation. On the other hand, demand in newly industrializing nations is forecast to drive increased demand for the world's forest resources. To address the problems facing forests and to promote procurement of timber from sustainable forests, Sumitomo Forestry has promulgated its own Timber Procurement Philosophy and Policy, and has launched its own environmental initiatives, focusing on handling timber cut from forests that have received Forest Stewardship Council (FSC) certification, plantation timber, and Japanese timber. Further, we reduce the environmental impact of our overseas factories by using plantation timber and wood waste as raw materials in wood panel manufacturing. In addition, we use wood chips generated from our timber mills and manufacturing facilities as biomass fuel, seeking to eliminate waste wherever possible.

** Food and Agriculture Organization of the United Nations "The Global Forest Resources Assessment 2005"—average 2000-2005.*



The wooden-biomass boiler at RPI, our building materials manufacturing facility in Indonesia.

Environmental Practices Gained from Forestry Business

Besshi Copper Mine: Origins of the Group and Large-Scale Reforestation

The Sumitomo Forestry Group's relationship with the environment has its roots in the management of forest areas surrounding the Besshi Copper Mine in Shikoku, which opened in 1691. While the mining business grew, the forests surrounding the mine were devastated by over-cutting and smoke damage from the smelting operations. In 1894, Teigo Iba, the manager of the Besshi Mining Plant, was filled with a strong sense of resolve to resuscitate the devastated mountains and launched a large-scale reforestation plan.

Wood is being Rediscovered Worldwide as the Natural Environmentally Sound Material



In Sweden, a nationwide effort is underway to increase the number of wooden houses as a means to reduce CO₂ and prevent global warming. Of particular note is the city of Skellefteå

located in the northern part of the country. In 1995, Sweden changed its laws to allow wood-construction buildings, and in response, the city of Skellefteå launched a plan to greatly expand the number of wooden structures. Today, there are not only condominiums and office buildings, but also large-scale shopping centers, libraries, sports facilities, and even the airport control tower—all constructed from wood.



Student dormitory being constructed using our BF configuration.

Wood construction technology in Europe, however, was only able to create structures that were supported by the walls, which makes it difficult to modify the layout of the floorspace after construction. The solution was Sumitomo Forestry's BF "Big Frame" configuration. One of our researchers was invited by the Royal Swedish SP Research and Development Agency as a project leader, to share the basic technology of the BF configuration. Using the BF configuration, the structure is supported by the posts and beams with strong metal joints, not the walls.

Joint research and development have been conducted, and as a result, construction of a student dormitory using the BF configuration is currently underway in Skellefteå city. In this way, Sumitomo Forestry's environmentally sensitive technology is being recognized in Northern Europe.



Large wooden structures with a high degree of layout freedom are possible using Sumitomo Forestry technology.

Conducting an enormous reforestation effort that at times saw one million trees planted in a year, generations of nurturing and management resulted in the successful achievement of the original goal of “restoration of the forests to their original state and return of the forests to nature.”

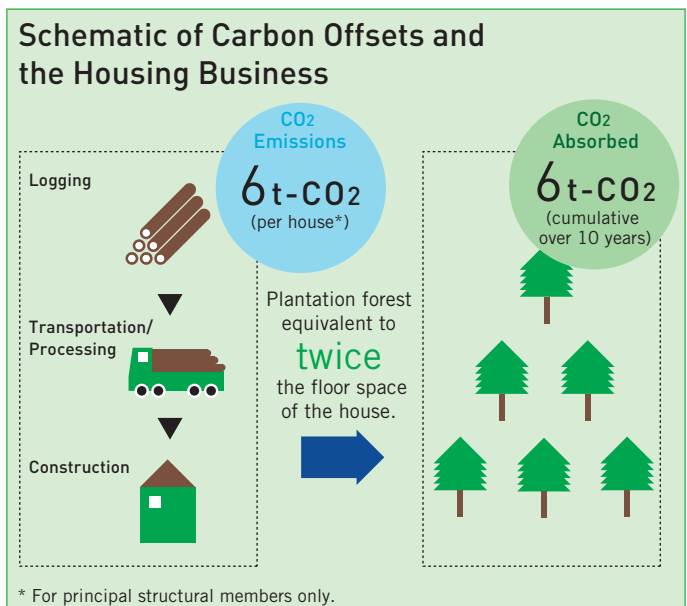
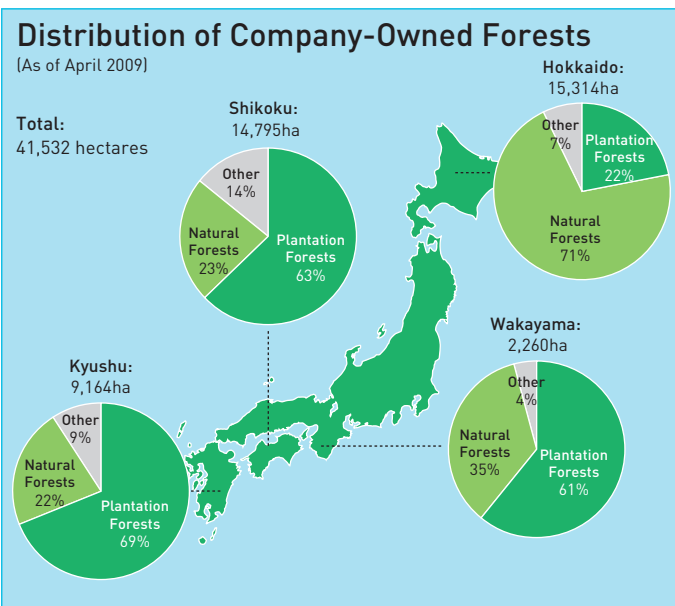
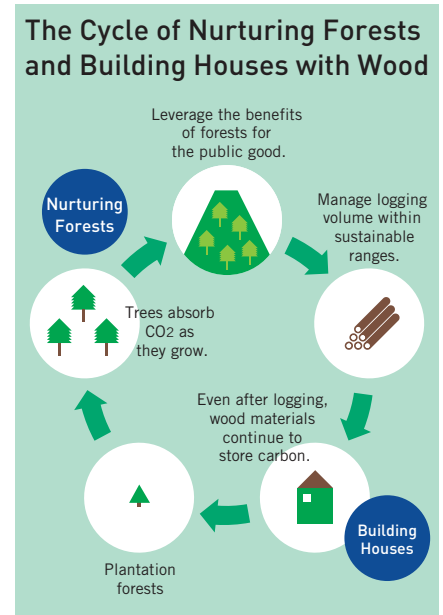
Sustainable Forestry is Practiced Today

Trees are a truly remarkable resource that can be harvested, planted and nurtured, and used again. Not only do trees absorb CO₂ as they grow, they continue to store the carbon after being processed into wood products. Forests provide numerous benefits for the common good, cultivating sources of water, protecting biodiversity, and preventing soil erosion. The Sumitomo Forestry Group owns approximately 41,500 hectares of forests, equivalent to 1/1000th of Japan’s land mass and we are expanding the area under management, primarily forests adjacent to those owned by the Company. We manage these forests from the long-term perspective, with consideration for sustainability and the environment. We can also claim a long history of achievement outside of Japan, including the rehabilitation of temperate-zone rainforests in Indonesia.

Carbon Offsets from Plantation Forests

In 2009, leveraging our strengths as the “Wood and Forest Professionals,” we began to use “carbon offsets” to compensate for the total CO₂ generated across the entire chain, from logging to construction, of the wood used as principal structural members of the detached wooden houses we build. In this project, we plant trees in plantation forests on land area that is equivalent to twice the floor space of the house to be constructed. Over the next 10 years, the amount of CO₂ absorbed by the forest offsets the approximately six tons*¹ of CO₂ emitted per each house constructed. We will plant a total of approximately 1,500 hectares with about 2,000,000 trees over five years on devastated land in Indonesia, then manage and nurture the forests for another 10 years. In Bromo Tengger Semeru National Park, we manage environmental tree plantations, where the planted trees will never be cut down, aiming to contribute to the environment and community of the area. On devastated lands outside of protected forests in National Parks, etc., we manage industrial tree plantations, where the cycle of cutting and plantation is repeated endlessly, to create both employment and income from timber sales for the regional community. The project includes provisions for third-party issuance of certification of the amount of carbon absorbed by the forests, as well CDM*² certification by the United Nations.

Financial institutions have recognized this integrated approach and have begun offering special CSR loans with preferential interest rates available only





Plantation forest area in Indonesia

to customers of the houses we've built. In this way, we are rising to the challenge of creating new ways that not only allow our customers to participate in activities for protecting the environment but also connect our house-building and forest-building businesses.

1. Forecast based on a wooden house with floor space of 136 square meters.
2. Clean Development Mechanism

The Legacy of the Sumitomo Spirit

Our corporate philosophy is “utilize timber as a renewable natural resource, and contribute to a prosperous society,” and our Action Guidelines and the Ethical Charter “Our Values and Ideals” both emphasize symbiosis with the environment.

The large-scale reforestation plan at the Besshi Copper Mine that was undertaken more than 100 years ago has been called an expression of the Sumitomo Spirit of “We conduct business that is beneficial to society based on the principles of integrity and sound management.” Over many years, the belief that “we must repay our debt to the land” has become a spiritual pillar supporting the Sumitomo Forestry Group, a part of our DNA, and infuses our primary product—housing.

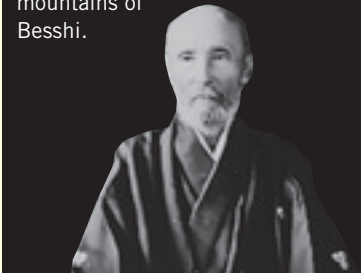
Today, coexistence with the environment has become the center of attention, but we will continue, as we have for more than a century, to aspire to making even greater contributions to society and the environment.



Tropical rainforest rehabilitation project in East Kalimantan Province, Indonesia, where 7.38 million trees were planted on 503 hectares of land over the 13-year period from 1991 to 2004.

Large-Scale Reforestation Plan and Teigo Iba (1847-1926)

As manager of the Sumitomo Family's Besshi Mining Plant, he worked to resolve the smoke damage problem, launching a large-scale reforestation plan that restored the forests of the mountains of Besshi.



Source: Sumitomo Group Public Affairs Committee Home Page



Before and after photographs of the reforestation plan.



Corporate Philosophy and Action Guidelines

The Sumitomo Forestry Group's corporate philosophy is "to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services." Based on this philosophy, our mission is the maximization of corporate value.

To achieve our mission, 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 people, we aim to create an open-minded corporate culture in which each employee works with high morale and pride. We also strive for symbiosis with the environment by addressing environmental issues with all effort, aiming for a sustainable society. In addition, we put the customers first by placing top priority on ensuring their satisfaction.

Socially Responsible Corporate Management

The Group has established conceptual frameworks that integrate our way of thinking about corporate social responsibility. "Our Work and CSR" guides all employees of the Group in understanding and acting upon our CSR principles. "Our Values and Ideals" guides employees in consideration of "How can we achieve what is most important?" "Sustainability" is a key component of the Sumitomo Forestry Group's DNA, having evolved from centuries of commitment to sustainable forestry. Our shared DNA, values, and ideals as members of the Sumitomo Forestry Group guide us in our mission to continue as a company that is needed as well as desired by society.

External Recognition

Sumitomo Forestry is included in the following Socially Responsible Investment Indices (as of September 2009):



FTSE4 Good Global Index

We have been included in this index since September 2004.



MS-SRI

We have been included as one of the constituent companies in this index from September 2008.



DJSI

September 2009 marks our fifth consecutive year of inclusion in this index.

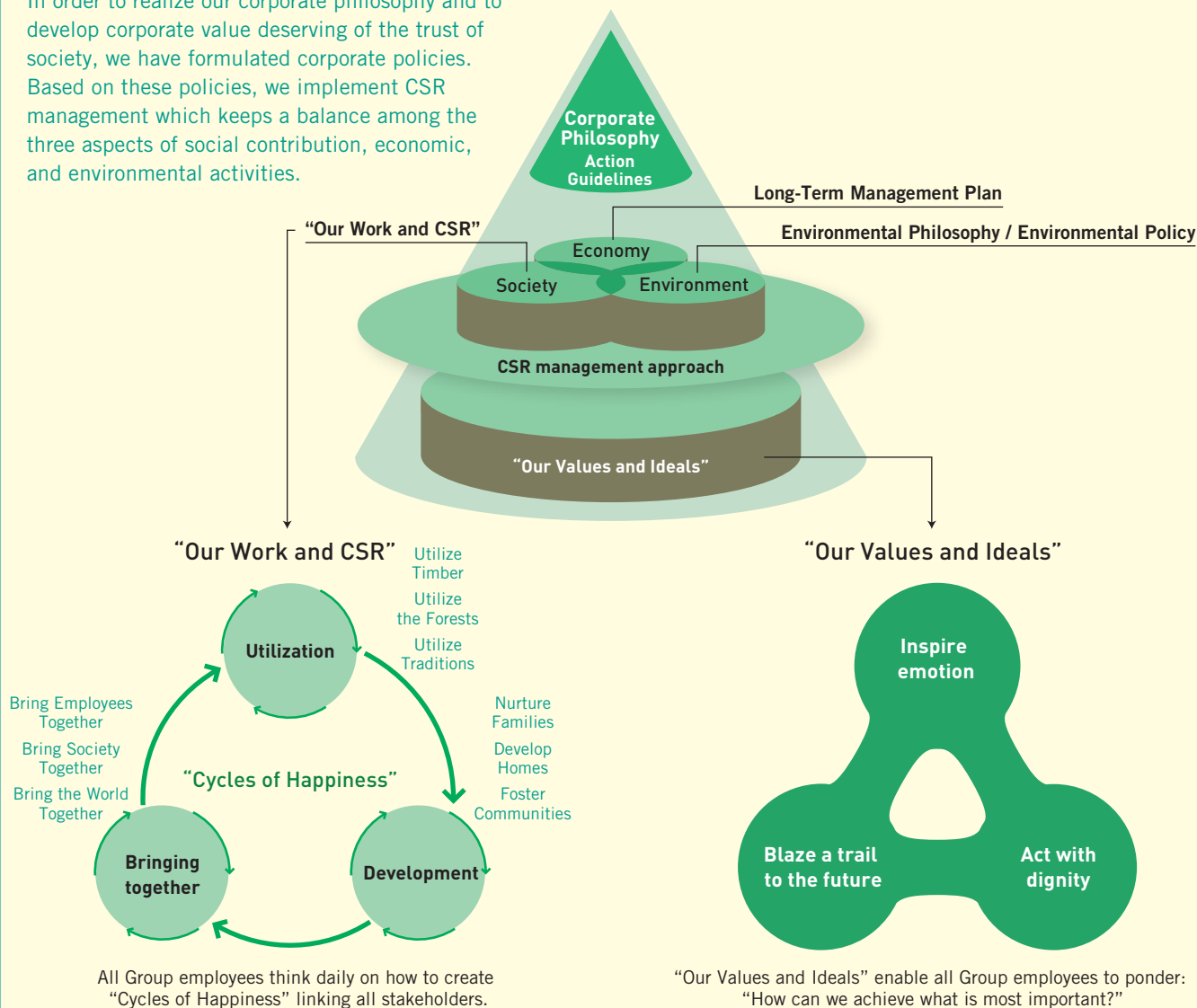
Environmental and Social Initiatives



For more information about Sumitomo Forestry Group's CSR activities, please refer to: "Social and Environmental Activities," available at <http://sfc.jp/english/information/society/>

CORPORATE POLICIES

In order to realize our corporate philosophy and to develop corporate value deserving of the trust of society, we have formulated corporate policies. Based on these policies, we implement CSR management which keeps a balance among the three aspects of social contribution, economic, and environmental activities.



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 Policy

The Sumitomo Forestry Group considers enhancing and strengthening corporate governance as one of the most important corporate priorities from the perspective of securing transparency in management, as well as quick decision-making and execution of operations.

Management System

Executive Officer System

The Company introduced the executive officer system to separate the management oversight and operational execution functions, with the objective of strengthening oversight and supervision of operations, and to clarify the lines of operational responsibility. The Board of Executive Officers, comprised of all executive officers (16 members, as of June 23, 2009), meets once a month, as a rule, and reports on the status of operational progress.

Board of Directors / Executive Committee

The Board of Directors, which is responsible for decision-making and oversight functions of the Group, meets monthly. The seven directors comprising the board make decisions related to all important matters, and confirm business results, etc., as well as strengthening oversight of the execution of operational duties. The Executive Committee meets twice a month to ensure sufficient deliberation of critical issues can be conducted prior to the convocation of Board of Directors meetings. During the year ended March 31, 2009, the Executive Committee met a total of 31 times.

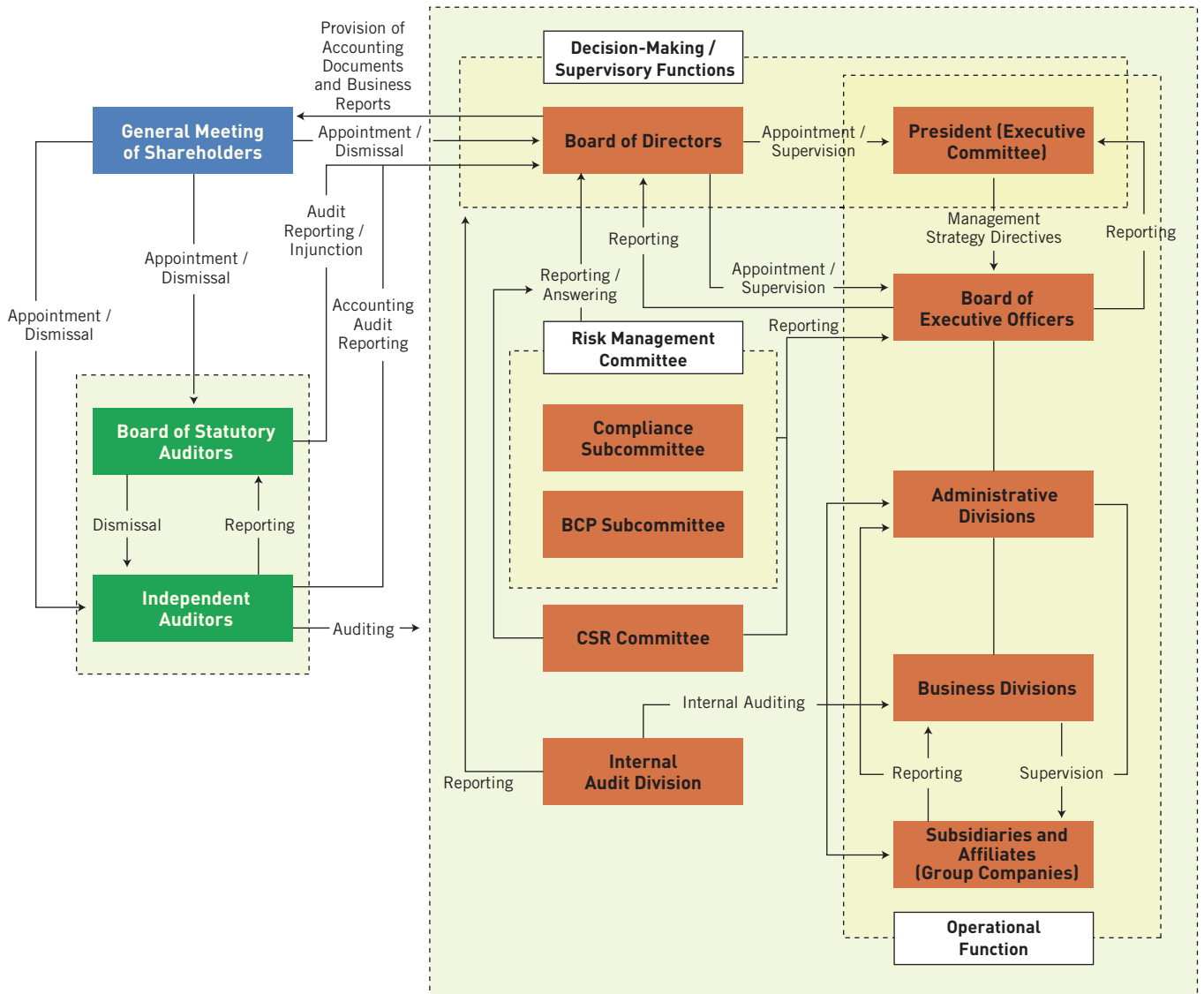
In June 2005, as a policy to provide incentives for directors, the retirement benefit system for directors was abolished and replaced by a remuneration and bonus system that is closely linked to business performance.

Board of Auditors

Established as a company with auditors, the Company has four auditors, including two external auditors, who oversee operational execution by the directors. The Board of Auditors, also comprised of the four auditors, promulgates basic audit policies and action plans. We believe that efforts to enhance and strengthen the audit function based on those policies and plan have established management objectivity. Audits are based on the Corporate Auditor Audit Practice Standards, which were revised by the Japan Corporate Auditors Association in February 2007, and the consequently revised Corporate Auditor Audit Practice Regulations and Rules for Board of Auditor Meetings, and have established an effective corporate governance system.

In addition to attending important company meetings, auditors meet once every quarter 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 (a meeting to exchange information), made up of auditors from various Group companies, meets once every quarter to ensure the appropriateness of the Group's overall operations.

Business Execution and Management Supervision Mechanism



External Auditors

The two external statutory auditors are Mr. Hiroshi Miki and Mr. Satohiko Sasaki. Mr. Miki is an attorney and a specialist in legal matters, who objectively audits the appropriateness of the Group's operations. 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. Mr. Sasaki audits the Group's environmental activities and business development in Southeast Asia objectively and appropriately. Neither auditor has any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

Attendance of External Auditors at Meetings of the Board of Directors and Board of Auditors

Position and Name	Board of Directors Meetings (convened 18 times)		Board of Auditors Meetings (convened 14 times)	
	# of Meetings Attended	% of Meetings Attended	# of Meetings Attended	% of Meetings Attended
Corporate Auditor: Hiroshi Miki	17	94%	14	100%
Corporate Auditor: Satohiko Sasaki	15	83%	12	86%

Directors' Remuneration, etc.*

Directors (8)	¥302 million
Corporate Auditors (6)	¥64 million (including ¥15 million in remuneration for external auditors)

* Remuneration amounts include those of one director whose term of office ended at the Ordinary General Meeting of Shareholders for the fiscal year ending March 31, 2008, and of two corporate auditors who resigned.

Accounting Audit

Accounting audits were conducted by a certified public accountant employed by Ernst & Young ShinNihon LLC, an accounting corporation, and the staff involved in the accounting audits was comprised of seven (7) certified public accountants and nine (9) assistant certified public accountants.

Strengthening Disclosure and Accountability

To increase the transparency of its operations, Sumitomo Forestry not only holds analyst meetings following formal announcement of its interim and year-end results, but also actively seeks to create opportunities to communicate, including holding 224 individual meetings with shareholders and investors in fiscal 2008. The Company is committed to close communication with its shareholders, and thus sends out early notice of convocation of General Shareholders Meetings, as well as scheduling the meetings so as to avoid concentration of meetings on a given day. By proactively disclosing information, we not only fulfill our obligation of explanation, but also provide direct feedback from our shareholders and investors to management. By doing so, we deepen relationships of trust with the capital markets and maximize the value of the corporation.

Compliance

The Sumitomo Forestry Group recognizes compliance as one of the most important issues that management must address and, through the Compliance Group of the General Administration Department, enforces compliance management across the entire Group. Established in fiscal 2006, the Compliance Group works with each business division to ensure that all laws and ordinances pertaining to the business are clarified, identifies issues involving compliance with laws and ordinances, and conducts specific activities to resolve those issues.

Risk Management and Internal Controls

The Group's risk management includes risk management at the corporate governance level through oversight and supervision by the Board of Directors, audits by Statutory Auditors, and detection, assessment, and management of risks by each business division. In fiscal 2008, the Group conducted a reevaluation with the aim of further strengthening risk management.

Specifically, the Group conducted a risk questionnaire survey of all employees, created a risk map so employees could understand the frequency and impact of occurrences of risk, and ranked those risks in order of severity of impact on the business. As a result, risks related to disaster and compliance were identified as the high-priority risk areas and specific measures were implemented in those areas.

Regarding disaster-related risk, the BCP* Sub-Committee was established and tasked with creating a Business Continuity Plan to respond to risks such as a major earthquake in the Capital region with the potential to cause loss or degradation of the headquarters function, or an epidemic of novel influenza. The sub-committee was particularly involved with clarification of the chain of command in an emergency, and identification of candidate offices capable of serving as the alternate headquarters if necessary. In the area of compliance risks, a Compliance Sub-Committee was established and continuously raised awareness across the Group to eliminate risks such as leaks of personal information, driving under the influence, employees uncovering internal misconduct, etc.

The basic regulations governing risk management, including systems and procedures related to the Group's risk management, were also enacted.

Regarding the system of internal controls related to financial reporting as stipulated by the Financial Instruments and Exchange Act, documents related to the provisions thereof and to the operational procedure standardization were prepared; an examination of appropriateness of financial report processes and validity of internal control systems was conducted; and a system whereby the internal audit department assesses those results was established. Work on qualitative improvements is ongoing, and as of March 2009, we have reached the conclusion that the internal control systems related to financial reporting are valid.

* **BCP (Business Continuity Plan):** *The Business Continuity Plan is a management strategy designed to ensure that major business operations do not cease in the event of a disaster, or if they are terminated, that major operations can be resumed at the earliest opportunity. The plan is further intended to protect the corporation from loss of customers to competitors, decline in market share, or degradation of corporate reputation due to cessation of operations.*

Examples of Internal Control Initiatives

Compliance Counter

With the aim of promoting self-policing in our activities, we established the Compliance Counter consultation system to receive information from any Group employee about illegal activities and/or actions that violate our corporate ethics, while ensuring protection of their privacy.

Information Security

Due to the nature of our business, the Group maintains detailed information about customers for extended periods of time and regards reinforcement of information security, including of personal information about customers, as a top priority. We continue working to prevent internal or external leaks of personal information by creating tools to remind employees of our obligations under the provisions of the Personal Information Protection Act, by educating our business partners and vendors, and have adopted strict in-house rules on the handling of data storage media.

Vehicles used for Business Purposes

Approximately 2,400 vehicles, both company-owned and private, are used in the conduct of our business. To reduce traffic accidents involving these vehicles, we have introduced systems to manage both drivers and vehicles, required driving record certification, implemented safe driving education, and increased disciplinary actions available under internal regulations related to traffic violations.



(Front row, from left) Hideyuki Kamiyama, Hideki Nose, Mamoru Inoue, Ryu Yano
(Back row, from left) Hitoshi Hayano, Akira Ichikawa, Shigehiko Shiozaki

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**
Divisional Manager of Overseas Business Division
- * Senior Managing Executive Officer **Hideki Nose**
Divisional Manager of Forestry & Environment Division, Responsible for Intellectual Property, Tsukuba Research Institute
- * Senior Managing Executive Officer **Hideyuki Kamiyama**
Divisional Manager of Timber & Building Materials Division
- * Managing Executive Officer **Shigehiko Shiozaki**
Divisional Manager of Housing Division
- * Managing Executive Officer **Hitoshi Hayano**
Divisional Manager of Real Estate Business Division
- * Managing Executive Officer **Akira Ichikawa**
Responsible for Corporate Planning, General Administration, Corporate Communications, Personnel, Finance, Information Systems, Internal Audit
- Managing Executive Officer **Masahiro Nishimura**
President and Director of Sumitomo Forestry Home Tech Co., Ltd.
- Managing Executive Officer **Hideo Watabe**
Deputy Divisional Manager of Real Estate Business Division and General Manager of Real Estate Solution Department of the same Division
- Executive Officer **Yasuyuki Yamamoto**
Deputy Divisional Manager of Housing Division, General Manager of Nagoya Branch
- Executive Officer **Jiro Kuramitsu**
President and Director of Sumitomo Forestry Timberland Management Co., Ltd.
- Executive Officer **Shigeru Sasabe**
General Manager of General Administration Department
- Executive Officer **Ken Wada**
Deputy Divisional Manager of Housing Division, Responsible for Marketing Strategy, Corporate Marketing, Product Development, FOREST MAISON
- Executive Officer **Seiichi Takano**
Deputy Divisional Manager of Housing Division, Responsible for Construction Management, Quality Control & Customer Information
- Executive Officer **Toshio Yasuda**
President and Director of Sumitomo Forestry Crest Co., Ltd.
- Executive Officer **Suguru Mikawa**
Deputy Divisional Manager of Housing Division, Responsible for Technology, Building Materials Procurement & Logistics

(* Doubles as Director and Executive Officer)

FINANCIAL SECTION

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ELEVEN-YEAR SUMMARY

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

Millions of yen

	2009	2008	2007	2006
OPERATING RESULTS:				
Net sales and contract revenues	¥ 823,810	¥ 861,357	¥ 911,674	¥ 791,128
Timber and Building Materials Business* ¹	433,648	470,945	520,103	412,182
Housing and Housing-Related Businesses* ¹	406,351	407,687	407,780	393,868
Other Businesses	16,054	15,734	14,597	13,549
Elimination and/or corporate	(32,243)	(33,009)	(30,806)	(28,471)
Gross profit	133,493	135,277	141,117	127,853
Selling, general and administrative expenses	126,656	128,041	120,711	112,407
Operating income	6,837	7,235	20,405	15,446
Timber and Building Materials Business* ¹	2,054	3,330	7,967	2,806
Housing and Housing-Related Businesses* ¹	8,447	8,797	16,586	16,370
Other Businesses	936	969	903	841
Elimination and/or corporate	(4,599)	(5,860)	(5,051)	(4,571)
Recurring income* ²	6,160	7,659	21,259	16,800
Net income (loss)	1,028	1,115	11,954	10,842

FINANCIAL POSITION:				
Total assets	¥ 427,738	¥ 450,730	¥ 500,136	¥ 464,193
Working capital* ³	81,700	64,156	76,453	68,037
Interest-bearing debt	49,127	25,816	25,739	22,067
Total net assets* ⁴	156,192	173,089	188,855	175,206

CASH FLOWS:				
Cash flows from operating activities	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626
Cash flows from investment activities	(29,062)	(17,587)	(7,102)	(8,998)
Cash flows from financing activities	24,196	(4,262)	665	(14,039)
Cash and cash equivalents at the end of the year	40,730	54,475	50,311	49,628

CAPITAL INVESTMENT*⁵				
Tangible fixed assets* ⁶	¥ 24,087	¥ 9,578	¥ 6,724	¥ 8,132
Software	1,500	1,691	1,581	1,857
Others	651	225	721	454
Total	26,238	11,494	9,026	10,443
Depreciation and amortization	8,477	7,258	6,476	6,403

PER SHARE DATA: YEN				
Net income (loss)	¥ 5.8	¥ 6.3	¥ 67.4	¥ 61.3
Net assets	880.9	976.0	1,059.2	996.0
Cash dividends	15.00	15.00	15.00	13.00

	%			
FINANCIAL RATIOS:				
Gross profit margin	16.2	15.7	15.5	16.2
Operating income margin	0.8	0.8	2.2	2.0
Recurring income margin	0.7	0.9	2.3	2.1
Return on assets (ROA)* ⁷	1.4	1.6	4.4	4.0
Return on equity (ROE)* ⁷	0.6	0.6	6.6	6.6
Equity ratio	36.5	38.4	37.5	37.7
Interest-bearing debt ratio* ⁸	23.9	13.0	12.1	11.2
Current ratio	141.6	127.6	129.3	129.3
Interest coverage ratio [times]	4.5	4.5	11.2	10.8

Notes:

- 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.
- 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.
- Working capital = Current assets - Current liabilities

Millions of yen

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
¥ 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 calculated 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. As of March 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant, and equipment.

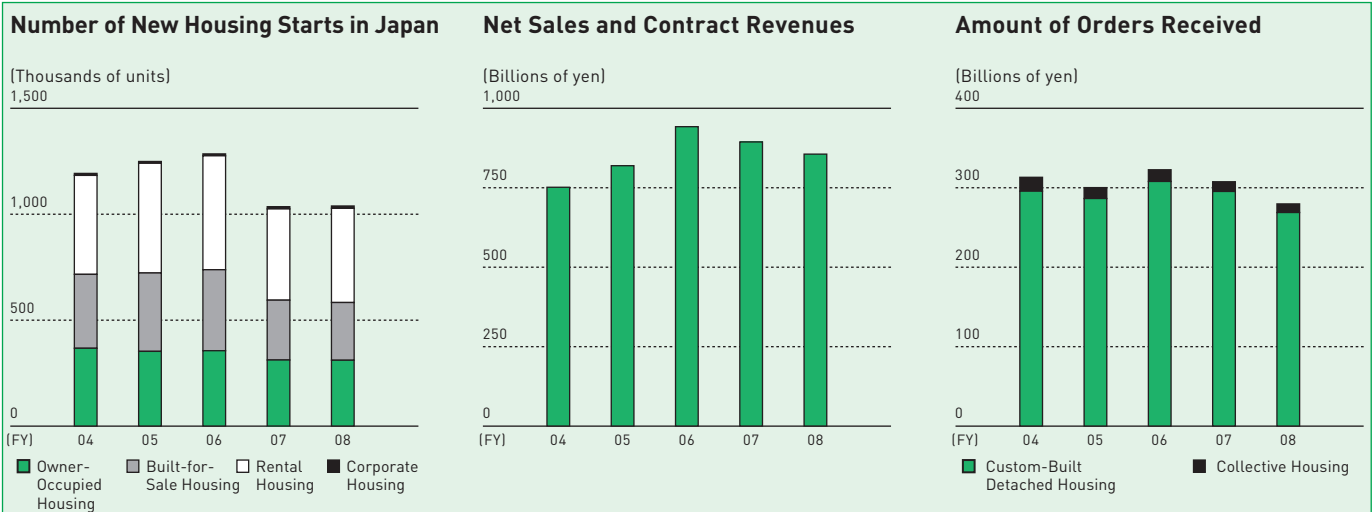
7. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income (loss) / Shareholders' equity

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

MANAGEMENT DISCUSSION AND ANALYSIS



Market Overview

In the business year ended March 2009, the Japanese economy was impacted by the global financial instability triggered by the subprime mortgage crisis and entered a retreat, as corporate earnings declined, the employment outlook worsened, and downward pressures on the economy increased.

In housing markets, while the effect of decreases in new housing starts caused by the revised Building Standards Act in the previous year ameliorated, the worsening economy caused new housing starts to grow by only 0.3%, to 1,039,000 units compared to the previous year. Owner-occupied housing starts, which have a deep relationship with the Group's businesses, reached only 311,000 units, a decrease of 0.4% from the previous period. Demand for timber and building materials in both domestic and overseas markets remained stagnant throughout the year, marking a continuation of the adverse market conditions from the previous year.

Consolidated Operating Results

1. Net Sales and Orders Received

Net sales fell by ¥37.547 billion to ¥823.810 billion, a decrease of 4.4% from the previous year. This is primarily attributable to slackening demand for timber and building materials due to stagnant growth of new housing starts in

Japan, the effects of the global recession, as well as a year-on-year decline in the number of new custom-built detached houses sold.

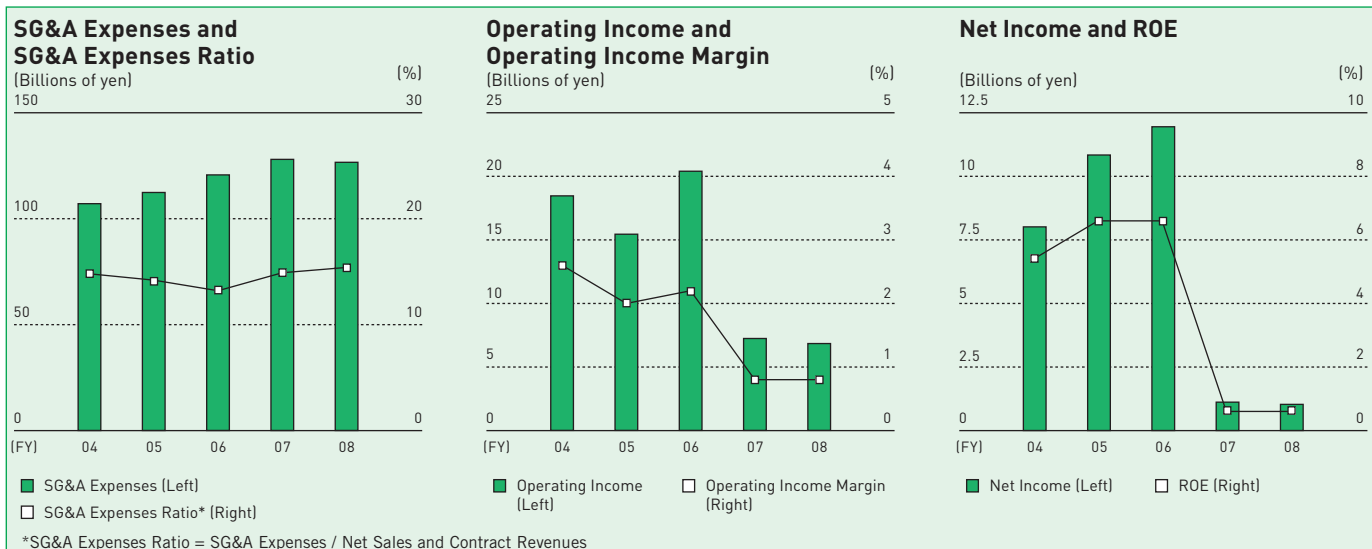
The value of orders received for custom-built detached homes was ¥268.889 billion, a decrease of 9.0% compared with the previous year, while the number of orders received totaled 8,703 units, a decline of 6.4%. While the Group initiated *Sumai Haku* promotional events at 27 locations around Japan and expanded its product line-up, results were below the previous year's, reflecting the negative impact of the worsening economic environment on consumers' desire to purchase houses.

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥126.656 billion, a decrease of 1.1% from the previous year. While efforts were made to comprehensively reduce expenses across the Group, beginning with advertising and promotion expenses, the downturn in the stock market impacted the accounting for retirement benefits obligations causing an actuarial loss of ¥5.0 billion yen, with the result that these reductions amounted to only ¥1.385 billion compared with the previous year.

3. Operating Income

In the distribution of timber and building materials business, the balance between supply and demand for timber and building materials improved, as inventory adjustments were made in the overall market. Costs were also reduced in the custom-



Segment Performance Highlights

	Millions of yen				
	2006	2007	2008	2009	2010 (Forecast)
Net sales					
Timber and Building Materials Business	¥412,182	¥520,103	¥470,945	¥433,648	¥415,000
Housing and Housing-Related Businesses	393,868	407,780	407,687	406,351	405,000
Other Businesses	13,549	14,597	15,734	16,054	13,000
Operating income					
Timber and Building Materials Business	¥ 2,806	¥ 7,967	¥ 3,330	¥ 2,054	¥ 2,000
Housing and Housing-Related Businesses	16,370	16,586	8,797	8,447	12,200
Other Businesses	841	903	969	936	800
	%				
Operating income margin					
Timber and Building Materials Business	0.7	1.5	0.7	0.5	0.5
Housing and Housing-Related Businesses	4.2	4.1	2.2	2.1	3.0
Other Businesses	6.2	6.2	6.2	5.8	6.2

Note: The sales figures given above include intersegment transactions.

built detached housing business and the price of timber, the primary raw material, dropped. As a result, the gross profit margin improved. Operating income, however, declined 5.5%, or ¥0.399 billion, to ¥6.837 billion. When the effects of the previously noted actuarial losses on retirement benefit obligations are excluded, operating income was ¥11.836 billion, a year-on-year increase of 0.6%.

4. Net Income

Net income fell by ¥0.087 billion to ¥1.028 billion, a 7.8% decrease from the previous year. This was attributable to the decrease in operating income, extraordinary losses on investment securities, valuation losses on inventories, and losses related to the disposition of subsidiary companies accompanying the transfer of operations of Sumitomo Forestry Two-By-Four Homes Co., Ltd., formerly a consolidated subsidiary. Net income per share was ¥5.80, a decrease of ¥0.49 from the previous year.

Segment Results

1. Timber and Building Materials Business

Net sales in the timber and building materials business were ¥433.648 billion, a decrease of 7.9%, and operating income was ¥2.054 billion, a decrease of 38.3% compared with the previous year. In the distribution business, which is operated in Japan, efforts were focused on comprehensive inventory management, strengthening relationships of trust through such activities as implementation of initiatives to support business partners, and enhancing the system to provide a wide range of products. As a result, the gross margin in the segment improved, but the negative impact of the market downturn depressed net sales. In the building materials manufacturing business, which is operated in both Japan and overseas markets, earnings fell below those of the previous period due to slowing demand for materials, and the effect of the steep rise in raw material prices in the first half of the fiscal year.

Operating Income of Main Subsidiaries

Timber and Building Materials Business

	Millions of yen		
	2008	2009	2010 Forecast
Years ended March 31			
Sumitomo Forestry Crest Co., Ltd.	541	(188)	230
Years ended December 31			
Overseas Subsidiaries*1			
PT. Kutai Timber Indonesia (Indonesia)	(304)	263	(490)
Alpine MDF Industries Pty Ltd. (Australia)	468	95	110
Nelson Pine Industries Ltd. (New Zealand)	2,981	1,485	310

Housing and Housing-Related Businesses

	Millions of yen		
	2008	2009	2010 Forecast
Years ended March 31			
Sumitomo Forestry Home Engineering Co., Ltd.	588	575	540
Sumitomo Forestry Home Service Co., Ltd.	(77)	(545)	120
Sumitomo Forestry Home Tech Co., Ltd.*2	294	727	1,110
Sumitomo Forestry Residential Co., Ltd.*3	429	355	820

*1 Calculations for overseas affiliated companies have been translated into Japanese yen at the following rates.

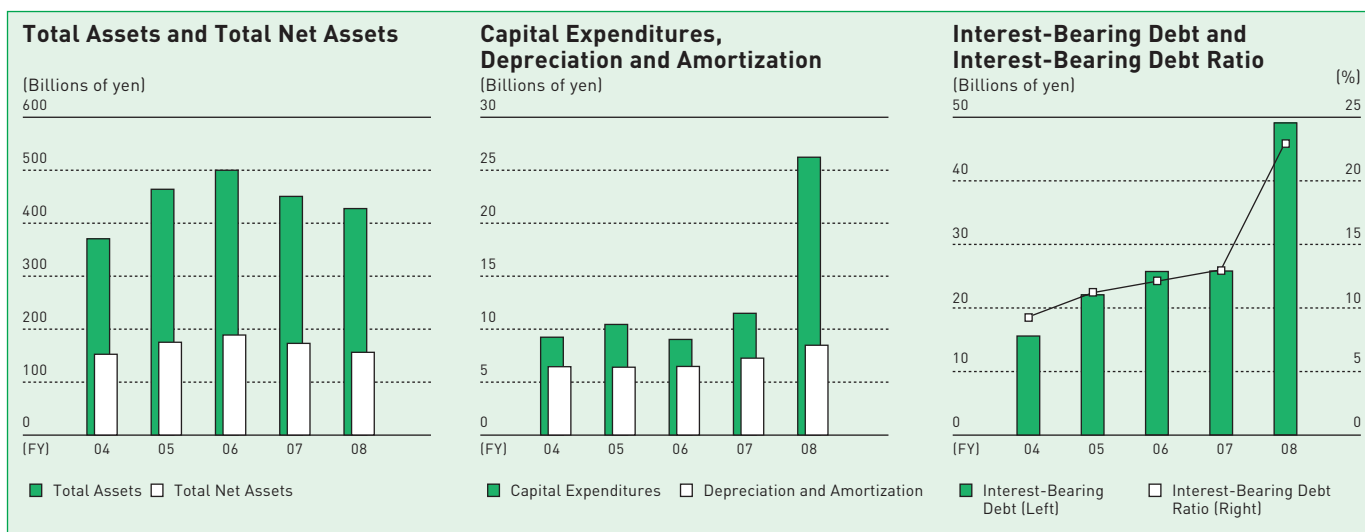
FY2007 US\$ = 117.78 / AU\$ = 98.71 / NZ\$ = 86.69

FY2008 US\$ = 103.32 / AU\$ = 88.49 / NZ\$ = 74.08

FY2009 (Forecast) US\$ = 97.00 / AU\$ = 63.00 / NZ\$ = 50.00

*2 Merged with Sumirin Maintenance Co., Ltd. on October 1, 2008.

*3 Changed business name from Sun Step Co., Ltd. on April 1, 2009.



2. Housing and Housing-Related Businesses

Net sales in the housing and housing-related businesses were ¥406.351 billion, a year-on-year decrease of 0.3%, and operating income was ¥8.447 billion, a decrease of 4.0%. Reflecting the downturn in the overall housing market, the number of custom-built houses sold declined despite efforts to sell high-value-added housing that leverages the Group's design strengths. Gross profit margin improved, however, mirroring the effects of a drop in prices of timber—the primary raw material for housing—as well as cost reduction initiatives. In the real estate business, we continued to propose high-value-added solutions that utilize the comprehensive strengths of the Group to meet the housing-related needs of local communities and differing generations, including the full launch of management of private pay elderly care facilities. We steadily grew the spec home business by providing products that meet the needs of each local community, targeting the first-time buyer. The remodeling business was also successful in recording a year-on-year increase in net sales, strengthening the sales network by regularly hosting on-site tours of remodeling projects, opening new stores, and attracting new customers via the Internet.

Financial Position and Cash Flow

1. Financial Position

At the end of March 2009, total assets were ¥427.738 billion, a decrease of ¥22.992 billion compared with the previous term. This decrease is primarily attributable to a reduction in current assets in the amount of ¥18.778 billion, reflecting a decrease in trade receivables (notes and accounts receivable), and a shrinkage in product, due to the decline in net sales in the distribution of timber and building materials business; as well as a ¥12.455 billion decrease in investments and other assets, as a result of losses on disposal of investment securities. Property, plant and equipment increased by ¥8.226 billion compared to the previous period, due to acquisition of real estate to strengthen the leasing operations of the real estate business.

Liabilities decreased by ¥6.096 billion compared to the previous consolidated fiscal year-end, to total ¥271.546 billion. This is primarily attributable to a decrease in accounts payable on construction accompanying the decrease in construction

in process items, and a decrease in accounts payable in the distribution of timber and building materials business, despite an increase in long-term debt. The interest-bearing debt ratio increased to 23.9% from 13.0% at previous fiscal year-end, as interest-bearing debt was ¥49.127 billion, an increase of ¥23.311 billion year-on-year as a result of ¥29.0 billion in long-term borrowing as investment capital for future growth. Net assets decreased by ¥16.896 billion compared to the previous fiscal year-end to total ¥156.192 billion, as a result of a reduction in unrealized gain on available-for-sale securities accompanying the downturn in the stock market, and a decrease in foreign currency translation adjustments reflecting the appreciation of the yen in the second half of the year. The equity ratio stood at 36.5%.

2. Cash Flow

Net use of cash for operating activities was ¥8.161 billion compared to net cash flow from operating activities of ¥26.106 billion recorded in the previous year, reflecting increases in progress payments for construction operations in the housing business, and increases in inventory assets, including real estate assets for sale, as part of the expansion of real estate operations. Net cash used for investment activities was ¥29.062 billion, due to expenditures for acquisition of operating assets in the real estate business, etc. Net cash flow from financing activities totaled ¥24.196 billion, compared with a ¥4.262 billion net use of cash for financing activities in the previous year, due to fund-raising activity primarily through long-term debt, etc.

3. Capital Expenditures

Investment in property, plant, and equipment totaled ¥26.238 billion. The primary components of the investment were acquisition of rental real estate for expansion of the real estate business, development of housing sales centers in roadside format with the objective of providing comprehensive housing-related services from the Group and reduction of costs in the long term, and renewal of plant and equipment at manufacturing facilities located in Japan and overseas. Forestland adjoining company-owned forests was also acquired in Shikoku and Kyushu.

As investment for housing-related businesses, investment in software totaled ¥1.5 billion, the same level as the previous period.

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 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 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 prices 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 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 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 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.

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 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 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.

12. Decline in Value of Held Assets

In the event of a decline in the value of assets held by the Group, such as real estate holdings and products, due to marked worsening of market conditions, there is the possibility valuation losses would be booked and of disposal of impaired assets, which may influence the Group’s business results and financial position.

13. Provision of Credit to Business Partners

The Group provides credit to business partners in the form of trade receivables, etc., and makes provisions for setting appropriate limits and reserves for credit losses to avoid exposure to credit risk. As these measures do not ensure complete avoidance of exposure to credit risk, the potential exists that exposure to credit risk may influence the Group’s business results and financial position.

14. Litigation Risk

As the Group is engaged in a range of business activities in Japan and overseas, there exists the possibility that said activities could be subject to litigation and/or dispute. In the event of these activities becoming subject to litigation, the Group’s business results and financial position may be influenced accordingly.

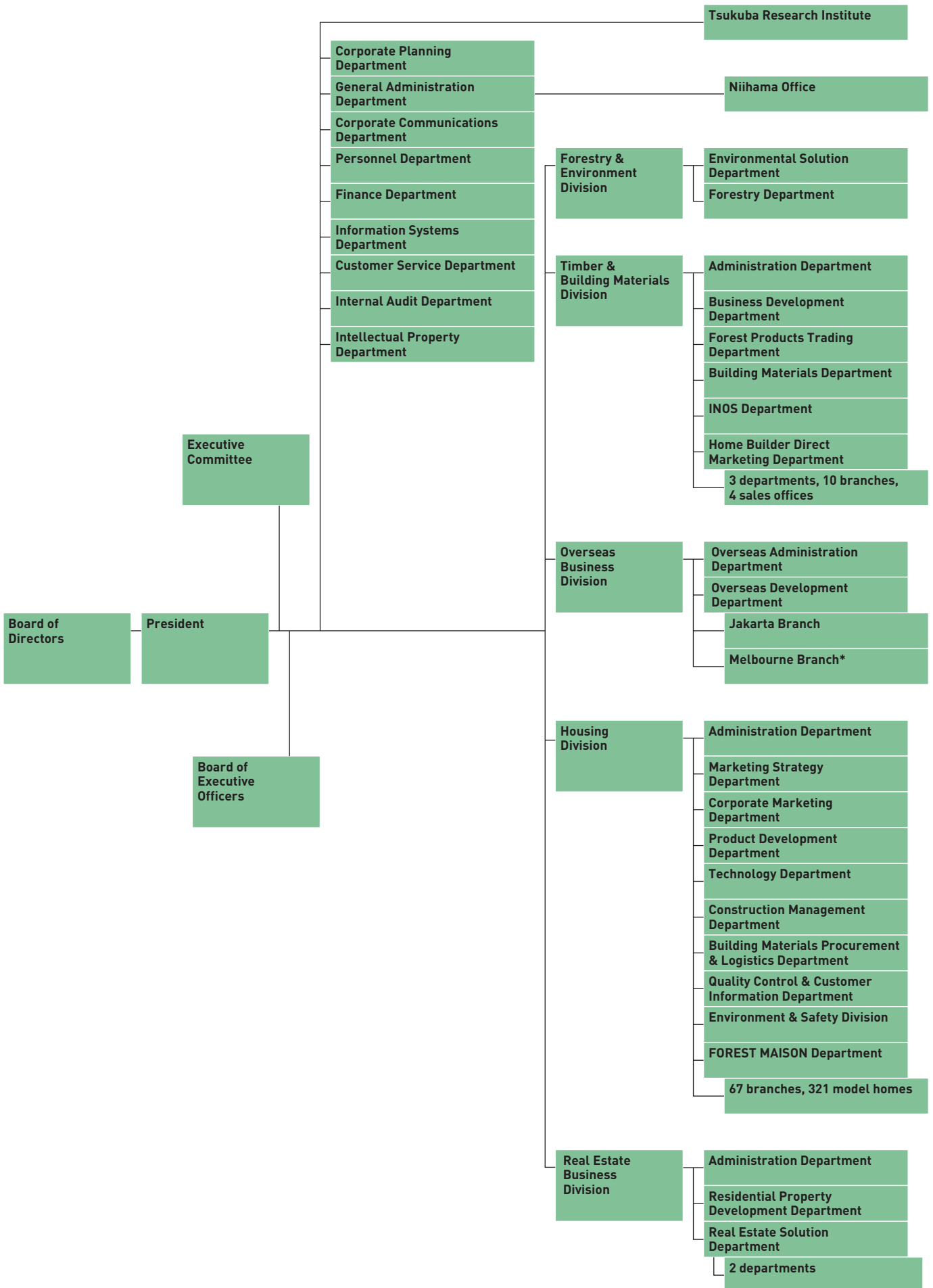
The Group is currently involved in a dispute in which a lawsuit has been filed regarding an increase in leasing fees related to real estate leased by the Group in the past. In June 2009, an interlocutory decree was handed down affirming the right of the lessor to demand an increase in the leasing fees. The total amount of the increased leasing fees demanded by the lessor is approximately ¥700 million. The Group’s litigation strategy going forward is currently under consideration, however, the possibility exists that the outcome of this lawsuit may influence the Group’s business results and financial position.

15. Fundraising Risk

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be regulated due to changes in the economic environment or lowering of credit ratings. In this event, the possibility exists of this influencing the Group’s business results and financial position.

** Statements in this annual report with respect to the matters in the future are forward-looking statements deemed by the Group as of the date of the production of this report.*

ORGANIZATION CHART (As of April 1, 2009)



*Melbourne Branch was closed and its functions transferred to Sumitomo Forestry Australia Ltd. in October 2009.

CONSOLIDATED BALANCE SHEETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	2009
Current assets:			
Cash and time deposits (Notes 7, 11)	¥ 23,854	¥ 39,591	\$ 243,407
Marketable securities (Notes 5, 11)	17,194	15,000	175,452
Receivables —			
Notes and accounts, trade (Note 7)	111,057	120,308	1,133,231
Loans and other	43,349	47,383	442,337
Inventories —			
Finished goods, logs and lumber (Note 7)	20,506	22,985	209,240
Developed land and housing for sale	21,593	14,865	220,342
Land and housing projects in progress	30,119	27,760	307,340
Deferred income taxes (Note 8)	6,647	5,588	67,824
Other current assets	4,657	4,167	47,522
Allowance for doubtful accounts	(740)	(631)	(7,547)
Total current assets	278,237	297,014	2,839,148
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land (Note 7)	28,299	20,644	288,767
Buildings and structures (Note 7)	46,792	41,463	477,465
Machinery and equipment (Note 7)	56,309	67,476	574,577
Timberland (Notes 6, 7)	10,736	11,044	109,552
Construction in progress (Note 7)	2,938	5,552	29,977
Leased assets	2,615	—	26,686
	147,688	146,179	1,507,025
Less accumulated depreciation	(59,542)	(66,259)	(607,574)
Net property, plant and equipment	88,146	79,921	899,451
Intangible assets, net of amortization:			
Goodwill	745	1,025	7,601
Other intangible assets	5,694	5,399	58,104
Total intangible assets	6,439	6,423	65,705
Investments and other assets:			
Investment securities (Note 5)	35,072	47,890	357,875
Long-term loans and receivables	10,379	9,557	105,908
Deferred income taxes (Note 8)	1,761	1,599	17,966
Other assets	9,457	9,664	96,499
Allowance for doubtful accounts	(1,752)	(1,339)	(17,879)
Total investments and other assets	54,916	67,371	560,369
Total assets	¥427,738	¥450,730	\$4,364,674

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	2009
Current liabilities:			
Payables —			
Notes and accounts, trade	¥126,947	¥148,198	\$1,295,382
Other	5,459	5,574	55,703
Short-term debt (Note 7)	9,911	12,046	101,132
Current portion of long-term debt (Note 7)	708	5,360	7,223
Current portion of lease obligation (Note 7)	514	—	5,248
Advances received from customers	34,800	41,385	355,107
Accrued income taxes	1,307	3,012	13,332
Accrued employees' bonuses	7,452	7,637	76,038
Accrued directors and corporate auditors' bonuses	39	42	393
Other current liabilities (Note 8)	9,400	9,605	95,921
Total current liabilities	196,537	232,858	2,005,478
Long-term liabilities:			
Long-term debt (Note 7)	36,145	8,411	368,825
Long-term lease obligation (Note 7)	1,849	—	18,871
Deferred income taxes (Note 8)	2,989	6,377	30,495
Accrued employees' retirement benefits (Note 16)	18,414	15,063	187,894
Other long-term liabilities	15,612	14,932	159,310
Total long-term liabilities	75,009	44,784	765,395
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 2009 and 177,410,239 shares in 2008	27,672	27,672	282,368
Capital surplus	26,872	26,876	274,202
Retained earnings	105,346	107,198	1,074,964
Treasury stock: 260,902 shares in 2009 and 237,846 shares in 2008	(260)	(249)	(2,657)
Total shareholders' equity	159,630	161,497	1,628,876
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities	2,359	9,085	24,075
Deferred gains or losses on hedges	29	59	298
Foreign currency translation adjustments	(5,961)	2,278	(60,826)
Total valuation and translation adjustments	(3,572)	11,422	(36,453)
Minority interests in consolidated subsidiaries	135	169	1,377
Total net assets	156,192	173,089	1,593,801
Total liabilities and net assets	¥427,738	¥450,730	\$4,364,674

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	2009
Sales:			
Net sales	¥462,739	¥496,478	\$4,721,826
Contract revenues	361,071	364,878	3,684,398
Total	823,810	861,357	8,406,223
Cost of sales:			
Cost of sales	425,981	456,481	4,346,744
Cost of contracts completed	264,336	269,599	2,697,307
Total	690,317	726,080	7,044,051
Gross profit	133,493	135,277	1,362,173
Selling, general and administrative expenses (Note 10)	126,656	128,041	1,292,409
Operating income	6,837	7,235	69,764
Other income (expenses):			
Interest and dividends income	1,408	1,570	14,371
Interest expense	(1,363)	(1,444)	(13,904)
Loss on devaluation of investment securities	(2,214)	(3,837)	(22,589)
Loss on devaluation of real estate for sale and other assets	—	(177)	—
Loss on devaluation of inventories	(421)	—	(4,293)
Loss on liquidation of subsidiaries and affiliates	(622)	—	(6,347)
Impairment loss	(532)	—	(5,424)
Gain on sales of investment securities	16	2,247	167
Other gains, net (Note 9)	(1,147)	7	(11,705)
Total	(4,873)	(1,634)	(49,723)
Income before income taxes and minority interests	1,964	5,601	20,040
Income taxes (Note 8):			
Current	2,129	5,156	21,723
Deferred	(1,149)	(661)	(11,730)
Total	979	4,495	9,993
Minority interests	(44)	(8)	(446)
Net Income	¥ 1,028	¥ 1,115	\$ 10,493

	Yen		U.S. dollars (Note 4)
	2009	2008	2009
Per share of common stock:			
Net Income (Note 18)	¥ 5.80	¥ 6.29	\$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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	2009	2009	2008	2009
SHAREHOLDERS' EQUITY						
Common Stock						
Balance at the end of previous period	¥ 27,672	¥ 27,672	\$ 282,368			
Changes during the period						
Total changes during the period	—	—	—			
Balance at the end of current period	¥ 27,672	¥ 27,672	\$ 282,368			
Capital Surplus						
Balance at the end of previous period	¥ 26,876	¥ 26,882	\$ 274,245			
Changes during the period						
Disposal of treasury stock	(4)	(6)	(43)			
Total changes during the period	(4)	(6)	(43)			
Balance at the end of current period	¥ 26,872	¥ 26,876	\$ 274,202			
Retained Earnings						
Balance at the end of previous period	¥107,198	¥108,919	\$1,093,859			
Changes in accounting policy change at foreign subsidiaries	(222)	—	(2,270)			
Changes during the period						
Cash dividends (¥15.00 per share)	(2,658)	(2,835)	(27,118)			
Net income	1,028	1,115	10,493			
Total changes during the period	(1,629)	(1,720)	(16,625)			
Balance at the end of current period	¥105,346	¥107,198	\$1,074,964			
Treasury Stock at Cost						
Balance at the end of previous period	¥ (249)	¥ (184)	\$ (2,545)			
Changes during the period						
Purchases of treasury stock	(23)	(95)	(235)			
Disposal of treasury stock	12	30	123			
Total changes during the period	(11)	(65)	(112)			
Balance at the end of current period	¥ (260)	¥ (249)	\$ (2,657)			
Total Shareholders' Equity						
Balance at the end of previous period	¥161,497	¥163,288	\$1,647,927			
Changes in accounting policy change at foreign subsidiaries	(222)	—	(2,270)			
Changes during the period						
Cash dividends (¥15.00 per share)	(2,658)	(2,835)	(27,118)			
Net income	1,028	1,115	10,493			
Purchases of treasury stock	(23)	(95)	(235)			
Disposal of treasury stock	8	24	79			
Total changes during the period	(1,644)	(1,791)	(16,781)			
Balance at the end of current period	¥159,630	¥161,497	\$1,628,876			
VALUATION AND TRANSLATION ADJUSTMENTS						
Unrealized Gain on Available-for-sale Securities						
Balance at the end of previous period	¥ 9,085	¥ 22,482	\$ 92,701			
Changes during the period						
Net changes in items other than shareholders' equity	(6,725)	(13,397)	(68,626)			
Total changes during the period	(6,725)	(13,397)	(68,626)			
Balance at the end of current period	¥ 2,359	¥ 9,085	\$ 24,075			
Deferred Gains or Losses on Hedges						
Balance at the end of previous period	¥ 59	¥ 155	\$ 602			
Changes during the period						
Net changes in items other than shareholders' equity	(30)	(96)	(304)			
Total changes during the period	(30)	(96)	(304)			
Balance at the end of current period	¥ 29	¥ 59	\$ 298			
Foreign Currency Translation Adjustments						
Balance at the end of previous period	¥ 2,278	¥ 1,804	\$ 23,250			
Changes during the period						
Net changes in items other than shareholders' equity	(8,239)	474	(84,076)			
Total changes during the period	(8,239)	474	(84,076)			
Balance at the end of current period	¥ (5,961)	¥ 2,278	\$ (60,826)			
Minority Interests						
Balance at the end of previous period	¥ 169	¥ 1,125	\$ 1,729			
Changes during the period						
Net changes in items other than shareholders' equity	(35)	(956)	(352)			
Total changes during the period	(35)	(956)	(352)			
Balance at the end of current period	¥ 135	¥ 169	\$ 1,377			
Total Net Assets						
Balance at the end of previous period	¥173,089	¥188,855	\$1,766,210			
Changes in accounting policy change at foreign subsidiaries	(222)	—	(2,270)			
Changes during the period						
Cash dividends (¥15.00 per share)	(2,658)	(2,835)	(27,118)			
Net income	1,028	1,115	10,493			
Purchases of treasury stock	(23)	(95)	(235)			
Disposal of treasury stock	8	24	79			
Net changes in items other than shareholders' equity	(15,029)	(13,975)	(153,359)			
Total changes during the period	(16,674)	(15,766)	(170,139)			
Balance at the end of current period	¥156,192	¥173,089	\$1,593,801			

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	2009
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 1,964	¥ 5,601	\$ 20,040
Adjustments —			
Depreciation and amortization	8,477	7,258	86,498
Impairment loss	532	—	5,424
Amortization of goodwill	294	682	3,003
Provision for (reversal of) doubtful accounts	524	(528)	5,343
Provision for (reversal of) employees' retirement benefits, less payments	3,421	2,678	34,903
Interest and dividends income	(1,408)	(1,570)	(14,371)
Interest expense	1,363	1,444	13,904
Equity in earnings of affiliates	576	185	5,873
Losses on devaluation of marketable securities and investment securities	2,214	3,837	22,589
Losses (gains) on sales of marketable securities and investment securities, net	(16)	(2,247)	(167)
Losses (gains) on disposal of fixed assets, net	94	(3)	959
Change in assets and liabilities:			
Notes and accounts receivable, trade	7,833	47,823	79,932
Inventories	(9,796)	(6,053)	(99,961)
Other current assets	5,852	29	59,718
Notes and accounts payable, trade	(20,628)	(22,129)	(210,487)
Advances received from customers	(6,441)	(3,296)	(65,730)
Other current liabilities	481	(1,874)	4,907
Other	1,180	560	12,036
Total	(3,488)	32,398	(35,587)
Interest and dividends income received	1,550	1,873	15,813
Interest paid	(1,180)	(1,458)	(12,045)
Income taxes paid, net	(5,043)	(6,707)	(51,461)
Net cash provided by operating activities	(8,161)	26,106	(83,279)
Cash flows from investment activities:			
Decrease (increase) in short-term loans receivable	(2,183)	(1,252)	(22,271)
Payments for purchases of fixed assets	(23,925)	(12,598)	(244,133)
Proceeds from sales of fixed assets	2,978	3,305	30,384
Payments for purchases of intangible assets	(2,005)	(1,695)	(20,454)
Payments for purchases of investment securities	(1,628)	(3,144)	(16,608)
Proceeds from sales of investment securities	546	2,808	5,574
Payments for additional acquisition of stock of consolidated subsidiaries	(100)	(1,106)	(1,021)
Payments for purchase of stock of subsidiary newly consolidated	—	(417)	—
Proceeds from purchase of stock of subsidiary newly consolidated	—	76	—
Payments for long-term loans receivable	(2,277)	(3,685)	(23,237)
Repayments of long-term loans receivable	163	104	1,659
Other	(632)	17	(6,449)
Net cash used in investment activities	(29,062)	(17,587)	(296,556)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	1,467	(2,896)	14,969
Payment of lease obligation	(279)	—	(2,844)
Proceeds from long-term debt	29,977	5,439	305,892
Repayments of long-term debt	(4,362)	(3,845)	(44,508)
Dividends paid	(2,658)	(2,835)	(27,118)
Other	50	(123)	511
Net cash used in financing activities	24,196	(4,262)	246,902
Effect of exchange rate changes on cash and cash equivalents	(717)	(93)	(7,320)
Net increase (decrease) in cash and cash equivalents	(13,745)	4,164	(140,252)
Cash and cash equivalents at the beginning of the year	54,475	50,311	555,863
Cash and cash equivalents at the end of the year (Note 11)	¥40,730	¥54,475	\$415,611

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2009 and 2008

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 Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)." In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs. Until March 31, 2008, the accompanying consolidated financial statements had been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with accounting principles generally accepted in their countries of domicile. Please see Note 3(s).

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 IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments 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, amounts 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, 2009, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥1,308 million (US \$13,351 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 at year-end in accordance with established internal regulations.

The balance of these reserves at March 31, 2009, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥139 million (US \$1,423 thousand).

(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, 2009, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥888 million (US \$9,057 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) Derivatives

Derivatives are stated at fair value.

(l) 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.

The amount on the balance sheets is calculated by write-down method based on the decrease in profitability.

(m) 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.

The Company and its domestic consolidated subsidiaries have reassessed the useful lives of machinery and equipment starting the current consolidated fiscal year pursuant to the amendment of the Corporation Tax Law in FY2008. The effect of this change on the income and segment information for the year ended March 31, 2009 was immaterial.

(n) 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.

(o) 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.

(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) New accounting pronouncements

(Accounting standard for valuation of inventory)

Although inventories held for ordinary sales have been carried at cost using the moving-average method or the specific cost method until the year ended March 31, 2008, effective from the current consolidated fiscal year, "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006) is applied, inventories are carried at cost (the amount on balance sheet is calculated by written down the carrying value based on lower profitability) using the moving average method or the specific cost method. As a result, operating income decreased ¥1,697 million (US \$17,312 thousand) and income before income taxes decreased ¥2,117 million (US \$21,605 thousand).

(Accounting standard for lease transactions)

Finance lease transactions that do not transfer ownership had been accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. However, effective from the fiscal year ended March 31, 2009, the Company has adopted the "Accounting Standards for Lease Transactions" (ASBJ Statement No. 13 on June 17, 1993, issued by the First Committee of the Business Accounting Council, and revised on March 30, 2007) and

"Implementation Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 on January 18, 1994, issued by the Accounting Practice Committee of the Japanese Institute of Certified Public Accountants, and revised on March 30, 2007) to account for such transactions in a manner similar to the accounting treatment for ordinary sale and purchase transactions.

The Company continues to account for finance lease transactions that do not transfer ownership, and that commenced before the initial year of the adoption of new accounting standards in the same manner as operating lease transactions.

Its effect on earning is insignificant.

(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement)

Effective from the fiscal year ended March 31, 2009, the Company has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement" (Practical Issues Task Force No.18 issued on May 17, 2006) and has made revisions required for consolidated accounting.

Its effect on earning is insignificant.

(t) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2008 have been reclassified to conform to presentation in 2009.

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 ¥98 = US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2009. 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, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,151	¥7,191	¥(3,303)	¥31,038
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	412	4	(0)	416
Other	¥16,900	¥ —	¥ —	¥16,900

6. TIMBERLAND

The investment in timberland at March 31, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Standing timber:			
Mature timber	¥10,491	¥10,763	\$107,054
Growing timber	245	282	2,499
	10,736	11,044	109,553
Land	651	483	6,640
	¥11,387	¥11,527	\$116,193

The timberland accounts at March 31, 2009 and 2008 were reduced by ¥268 million (US \$2,739 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, 2009 and 2008 generally represented short-term borrowings which bore interest of 2.93% and 4.90% per annum, respectively. Long-term debt at March 31, 2009 and 2008 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans, principally from banks and insurance companies, due 2009 to 2036 with interest of 1.86%:			
Secured			
Loans from banks or other	¥ 1,644	¥ 2,960	\$ 16,771
Unsecured			
Loans from banks or other	35,209	10,810	359,277
Lease obligation	2,364	—	24,119
	39,216	13,770	400,167
Portion due within one year			
Loans from banks or other	708	5,360	7,223
Lease obligation	514	—	5,248
	1,222	5,360	12,471
	¥37,994	¥ 8,411	\$387,696

	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
	Thousands of U.S. dollars			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$277,050	\$73,374	\$(33,709)	\$316,715
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	4,207	36	(1)	4,242
Other	\$172,449	\$ —	\$ —	\$172,449

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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Proceeds	¥43	¥2,808	\$436
Gross gains	16	2,247	167
Gross losses	4	—	36

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2009			
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due within one year	¥—	¥17,194	\$—	\$175,452
Due after one year through five years	—	—	—	—
Due after five years through ten years	—	118	—	1,203
	¥—	¥17,312	\$—	\$176,655

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.

The following assets were pledged to secure bank loans and long-term debt at March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposit	¥ 90	¥ —	\$ 920
Receivables—			
Notes and accounts, trade	760	428	7,754
Finished goods, logs and lumber	2,103	1,153	21,459
Land	1,028	245	10,490
Buildings and structures	2,202	3,789	22,465
Machinery and equipment	5,660	9,561	57,756
Construction in progress	995	—	10,152
Timberland	929	1,556	9,482
	¥13,767	¥16,732	\$140,478

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements for the years ended March 31, 2009 and 2008 were ¥12 million (US \$126 thousand) and ¥15 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2009 were as follows:

YEARS ENDING MARCH 31	Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2009	¥ 708	\$ 7,223	¥ 514	\$ 5,248
2010	1,354	13,815	716	7,303
2011	6,527	66,603	716	7,309
2012	6,272	63,996	355	3,620
2013	10,056	102,608	57	584
Thereafter	11,937	121,803	5	55
	¥36,853	\$376,048	¥2,364	\$24,119

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 2009 was 40.0%.

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

	2009	2008
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	16.6	6.3
Per capita portion of inhabitant tax	13.7	5.0
Amortization of goodwill	5.4	4.9
Valuation allowance	(87.8)	36.4
Adjustment on prior year income taxes	(9.6)	(7.7)
Taxes on undistributed earnings of overseas subsidiaries	64.3	—
Other	7.3	(4.7)
	49.9%	80.2%

The significant components of deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,213	¥ 3,276	\$ 32,784
Devaluation of real estate for sale and other assets	4,598	5,071	46,915
Pension and severance costs	7,292	5,921	74,408
Tax loss carryforwards	2,542	1,885	25,936
Impairment loss	1,554	1,359	15,862
Other	5,515	5,460	56,275
Gross deferred tax assets	24,714	22,974	252,180
Valuation allowance	(9,946)	(10,511)	(101,490)
Total deferred tax assets	14,768	12,463	150,690
Deferred tax liabilities:			
Deferred gains on sales of property	(1,242)	(897)	(12,670)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(16,228)
Unrealized gain on available-for-sale securities	(1,318)	(4,909)	(13,444)
Land revaluation differences	(1,309)	(1,309)	(13,358)
Taxes on undistributed earnings of overseas subsidiaries	(1,262)	—	(12,882)
Other	(2,633)	(3,019)	(26,870)
Gross deferred tax liabilities	(9,354)	(11,724)	(95,452)
Net deferred tax assets	¥ 5,413	¥ 739	\$ 55,238

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2009 and 2008 as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets —			
Deferred income taxes	¥6,647	¥5,588	\$67,824
Investment and other assets —			
Deferred income taxes	1,761	1,599	17,966
Current liabilities —			
Other	(6)	(71)	(57)
Long-term liabilities —			
Deferred income taxes	(2,989)	(6,377)	(30,495)
Net deferred tax assets	¥5,413	¥ 739	\$55,238

9. OTHER GAINS (LOSSES), NET

Other gains (losses), net, for the years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Gain on foreign exchange	¥ —	¥ 59	\$ —
Loss on foreign exchange	(1,047)	—	(10,681)
Gain on sales of property, plant and equipment	149	155	1,523
Loss on disposal of property, plant and equipment	(243)	(152)	(2,482)
Other, net	(6)	(55)	(65)
	¥(1,147)	¥ 7	\$ (11,705)

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2009 and 2008 were ¥1,174 million (US \$11,979 thousand) and ¥1,023 million, respectively.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥23,854	¥39,591	\$243,407
Short-term investments	16,900	15,000	172,449
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(24)	(116)	(245)
Cash and cash equivalents	¥40,730	¥54,475	\$415,611

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 appropriated 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 balances of the legal reserve of the Company at March 31, 2009 and 2008, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US \$29,154 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 the 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, 2009 and 2008 were ¥4,296 million (US \$43,840 thousand) and ¥4,706 million, respectively.

Finance lease transactions that do not transfer ownership and that commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Buildings and structures	¥8,481	¥12,199	\$86,543
Machinery and equipment	5,106	6,327	52,102
Other	107	147	1,096
Accumulated depreciation	(8,570)	(9,051)	(87,449)
Accumulated impairment loss	—	(1)	—
	¥5,125	¥ 9,620	\$52,292

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Depreciation	¥4,180	¥4,557	\$42,651
Interest expenses	117	150	1,189

Depreciation expenses are calculated based on the straightline 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 at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current obligation	¥2,707	¥4,100	\$27,618
Long-term obligation	2,506	5,629	25,575
Present value of lease payments	5,213	9,729	53,193
Impairment loss on leased assets	¥ —	¥ 0	\$ —

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the financial statements.

14. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2009 and 2008, for loans guaranteed amounted to ¥15,150 million (US \$154,589 thousand) and ¥20,372 million, respectively, and for notes discounted and endorsed in the ordinary course of business amounted to ¥0 million (US \$0 thousand) and ¥277 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Guarantee on loans from financial institutions			
PT. AST Indonesia	¥ 196	¥ —	\$ 2,005
Dongwha SFC Housing Co., Ltd.	42	200	427
Cascadia Resort Communities LLC	46	—	464
Purchasers with housing loans applied	14,667	19,961	149,661
Other	0	0	1
Guarantee on rent payment			
Sumiky Co. Ltd.	199	211	2,031
	¥15,150	¥20,372	\$154,589

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.

A special accounting procedure is used for interest rate swaps as they satisfy the requirements for a special accounting procedure.

(2) Hedging method: Foreign exchange forward contracts and foreign currency swaps are utilized for foreign exchange risks.

Interest rate swap transactions are utilized for interest rate risks.

(3) Scope of hedging: Certain transactions, including planned transactions and loan payables with interest rate risk, 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.

A special accounting procedure is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

The outstanding contract amounts and unrealized gains or losses of financial derivatives of the Companies at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Currency-related			
Forward foreign currency exchange contracts:			
Sell (Yen)			
Notional Amount			
Maturing within one year	¥4,836	¥—	\$49,351
Maturing after one year	—	—	—
Fair Value	5,098	—	52,017
Unrealized gains (losses)	(261)	—	(2,666)
Sell (U.S. dollar)			
Notional Amount			
Maturing within one year	694	—	7,085
Maturing after one year	—	—	—
Fair Value	793	—	8,089
Unrealized gains (losses)	¥ (98)	¥—	\$ (1,004)

The market price at the end of the fiscal year is based on the forward foreign exchange rate then prevailing in the market.

Items for which hedge accounting is applied are excluded from the above table disclosure.

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. A certain domestic subsidiary uses Smaller Enterprise Retirement Allowance Mutual Aid 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 employee's basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt a defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥(53,871)	¥(51,303)	\$(549,703)
Fair value of plan assets	35,457	36,239	361,809
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥(18,414)	¥(15,063)	\$(187,894)

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥3,161	¥3,249	\$32,257
Interest cost	980	934	10,000
Expected return on plan assets	(1,286)	(1,329)	(13,123)
Recognized actuarial loss	4,986	4,533	50,877
Amortization of prior service cost	13	—	136
Expense of changing accounting method	578	166	5,893
Net periodic benefit costs	¥8,432	¥7,554	\$86,040

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

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	2.1%	2.0%
Expected rate of return on plan assets	3.6%	3.7%
Recognition period of actuarial gain / loss	1 year	1 year

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, 2009	Millions of yen					
	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥413,995	¥406,064	¥ 3,751	¥823,810	¥ —	¥823,810
Intersegment transfers	19,652	287	12,303	32,243	(32,243)	—
Total	433,648	406,351	16,054	856,053	(32,243)	823,810
Operating expenses	431,594	397,904	15,119	844,616	(27,643)	816,973
Operating income	¥ 2,054	¥ 8,447	¥ 936	¥ 11,436	¥ (4,599)	¥ 6,837
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥197,259	¥149,543	¥11,449	¥358,251	¥69,487	¥427,738
Depreciation and amortization	3,890	2,860	854	7,604	873	8,477
Impairment loss	—	—	—	—	532	532
Capital investment	5,272	18,960	850	25,082	1,156	26,238

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, 2009	Thousands of U.S. dollars					Consolidated
	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	
Sales and contract revenues:						
Unaffiliated customers	\$4,224,443	\$4,143,505	\$ 38,275	\$8,406,223	\$ —	\$8,406,223
Intersegment transfers	200,534	2,930	125,545	329,009	(329,009)	—
Total	4,424,977	4,146,435	163,820	8,735,232	(329,009)	8,406,223
Operating expenses	4,404,022	4,060,240	154,273	8,618,535	(282,075)	8,336,460
Operating income	\$ 20,955	\$ 86,195	\$ 9,547	\$ 116,697	\$ (46,934)	\$ 69,763
Identifiable assets, depreciation and capital investment:						
Identifiable assets	\$2,012,847	\$1,525,949	\$116,829	\$3,655,625	\$709,049	\$4,364,674
Depreciation and amortization	39,693	29,188	8,710	77,591	8,908	86,498
Impairment loss	—	—	—	—	5,424	5,424
Capital investment	53,797	193,465	8,674	255,936	11,801	267,737

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, 2009	Millions of yen			Elimination and / or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥799,069	¥24,741	¥823,810	¥ —	¥823,810
Intersegment transfers	2,213	7,152	9,365	(9,365)	—
Total	801,282	31,893	833,175	(9,365)	823,810
Operating expenses	790,797	30,583	821,381	(4,408)	816,973
Operating income	¥ 10,484	¥ 1,310	¥ 11,794	¥ (4,957)	¥ 6,837
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥329,893	¥42,432	¥372,325	¥55,413	¥427,738

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, 2009	Thousands of U.S. dollars				
	Domestic	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	\$8,153,765	\$252,458	\$8,406,223	\$ —	\$8,406,223
Intersegment transfers	22,579	72,983	95,562	(95,562)	—
Total	8,176,344	325,441	8,501,785	(95,562)	8,406,223
Operating expenses	8,069,361	312,074	8,381,435	(44,975)	8,336,460
Operating income	\$ 106,983	\$ 13,367	\$ 120,350	\$ (50,587)	\$ 69,763
Identifiable assets, depreciation and capital investment:					
Identifiable assets	\$3,366,259	\$432,975	\$3,799,233	\$565,441	\$4,364,674

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, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Numerator for net income per share:			
Net Income	¥1,028	¥1,115	\$10,493
Income not available to common stockholders	—	—	—
Income available to common stockholders	1,028	1,115	10,493
Denominator for net income per share:			
Weighted average number of shares issued	177,163,309	177,190,006	

The diluted net income per share for the years ended March 31, 2009 and 2008 was not presented because there were no shares with dilutive effect.

19. RELATED PARTY TRANSACTIONS

Effective from the consolidated fiscal year ended March 31, 2009, the Company has adopted the "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, October 17, 2006) and the "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 October 17, 2006). As a result, transactions between the Company's consolidated subsidiaries and their related parties were newly disclosed for the consolidated fiscal year ended March 31, 2009.

Transactions between the Company's consolidated subsidiaries and affiliates for the consolidated fiscal year ended March 31, 2009 were as follows:

Type	Name of company	Address	Capital amount (thousands of U.S. dollars)	Business description	Share of voting rights owned by the Company (or owned by affiliate)	Business relationship	Transaction description	Transaction amount (millions of yen)	Accounting item	Year-end balance (millions of yen)
Affiliate	Bennett-SFS LLC	Washington, U.S.A.	\$14,924	Sales of detached housing	Indirect 50.0%	Financial aid, Interlocking directorate	Loan	¥2,036	Long-term loan receivable	¥5,018

Loans were determined taking into consideration market interest rates.

20. SUBSEQUENT EVENT

The Company has taken a lawsuit on the rent increase by the lessor. In June 2009, judges handed down an interlocutory decision that granted the lessor's right on rent increase. The lessor's claim amount is approximately ¥700 million (US \$ 7,143 thousand) in total. The Company is currently examining measures against the suit.

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, 2009 and 2008, and the related consolidated statements of income, 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, 2009 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, 2009 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.

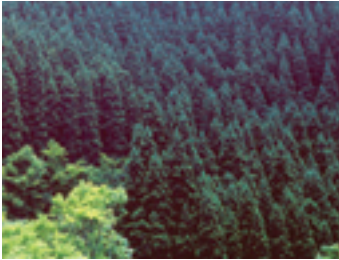
Ernst & Young ShinNihon LLC

June 23, 2009

SUMITOMO FORESTRY GROUP AT A GLANCE

The Sumitomo Forestry Group manages vertically and horizontally integrated, diversified, and global businesses across the value chain of wood, ranging from upstream forestry to downstream home-building.

Upstream



Midstream



Forestry/Environmental Business

[DOMESTIC]

Sumitomo Forestry Timberland Management Co., Ltd.

Forest management; various forestry businesses; procurement and sales of Japanese timber, etc.

[OVERSEAS]

Open Bay Timber Ltd. (Papua New Guinea)

Large-scale afforestation; log harvesting and export



Timber and Building Materials Distribution Business

[DOMESTIC]

Sumirin Sash Co., Ltd.

Secondary processing and sales of aluminum sashes; exterior finishing

Igeto Co., Ltd.

Sales of housing materials and fixtures

Kowa Lumber Co., Ltd.

Import/export and sales of logs; export of forestry equipment and equipment parts

Daiichisansho Co., Ltd.

Sales of construction materials; interior and exterior finishing

Nihei Co, Ltd.

Sales of construction materials; ancillary work

Northern Tech Co., Ltd.

Exterior wall finishing; remodeling; sales and installation of housing fixtures

Toyo Rikuun Co., Ltd.

Transportation

Sumikyo Wintec Co., Ltd.

Sales of door and window sashes for housing and low and mid-rise buildings; sales of exterior finishing materials

Sumikyo Co., Ltd.

Sales of door and window sashes for housing; sales and installation of sidings; sales of exterior finishing materials

Nichiha Fuji Tec Co., Ltd.

Manufacture and sales of construction materials

[OVERSEAS]

Sumitomo Forestry (Singapore) Ltd.

Procurement and sales of timber and building materials; investment and financing

Sumitomo Forestry (Dalian) Ltd. (China)

Import/export and wholesale of timber and building materials



Building Materials Manufacturing Business

[DOMESTIC]

Sumitomo Forestry Crest Co., Ltd.

Manufacture and sales of various types of plywood, building components for housing, furniture, etc.

Toyo Plywood Co., Ltd.

Manufacture and sales of housing fixtures, building materials, plywood, chemical products

Japan Bioenergy Holdings Co., Ltd.

Management direction and holding of shares in wood chip supply companies

Japan Bioenergy Co., Ltd.

Intermediate processing of industrial waste products, and supply and sales of wood chips

Kawasaki Biomass Power Generation Co., Ltd.

Electric power generation using wood-chip biomass; wholesale electric power

[OVERSEAS]

PT. Kutai Timber Indonesia

Manufacture and sales of plywood, secondary processed plywood and processed timber products

Fuxin Sumirin Wood Products Co., Ltd. (China)

Manufacture and sales of plywood

Sumitomo Forestry Australia Pty Ltd.

Oversight and participation in management of affiliates in Australia

Alpine MDF Industries Pty Ltd. (Australia)

Manufacture and sales of medium density fiberboard (MDF)

Sumitomo Forestry NZ Ltd.

Holding company

Nelson Pine Industries Ltd. (New Zealand)

Manufacture and sales of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)

Shouei Furniture Co., Ltd. (Thailand)

Manufacture and sales of furniture

PT. Rimba Partikel Indonesia

Manufacture and sales of particle board

PT. AST Indonesia

Manufacture and sales of materials for musical instruments and various kinds of other wood materials

PT. Sinar Rimba Pasifik (Indonesia)

Manufacture and sales of wooden interior products



Downstream



Housing and Housing-Related Business

[DOMESTIC]

Sumitomo Forestry Home Engineering Co., Ltd.

Construction and construction supervision of Sumitomo Forestry's custom-built wooden houses

Sumitomo Forestry Landscaping Co., Ltd.

Urban greening; landscaping for private residences; plant rental, etc.

Sumitomo Forestry Home Tech Co., Ltd.

Remodeling and maintenance of Sumitomo Forestry's custom-built wooden houses and remodeling of regular detached houses, as well as condominiums

Sumirin CAD Systems Co., Ltd.

CAD and CAM work for Sumitomo Forestry's custom-built wooden houses

Sumirin Base Techno Co., Ltd.

Site surveys and foundation improvement construction for Sumitomo Forestry's custom-built wooden houses

[OVERSEAS]

Paragon Wood Product (Dalian) Co., Ltd. (China)

Construction of wooden housing; production, secondary processing and sales of trusses

Paragon Wood Product (Shanghai) Co., Ltd. (China)

Construction of wooden housing; production, secondary processing and sales of trusses

Dongwha SFC Housing Co., Ltd. (Korea)

Construction and sales of wooden detached houses

Sumitomo Forestry Seattle, Inc. (U.S.A.)

Oversight and participation in management of affiliates in U.S.A.

Cascadia Resort Communities, LLC (U.S.A.)

Housing business, land development

Bennett-SFS, LLC (U.S.A.)

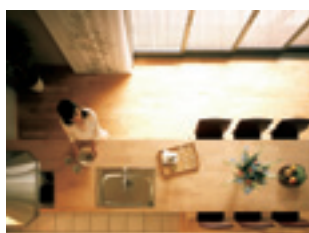
Construction and sales of detached houses

Henley-SFC Housing Pty Ltd. (Australia)

Construction and sales of developed wooden spec homes

Henley-SFC Housing Unit Trust (Australia)

Construction and sales of developed wooden spec homes



Real Estate Business

[DOMESTIC]

Sumitomo Forestry Residential Co., Ltd.

Management and remodeling of condominiums and apartments

Sumitomo Forestry Home Service Co., Ltd.

Sales agent for land and housing

Sumirin Life Assist Co., Ltd.

Management of nursing care facilities and housing for senior citizens

Meikan Honchosha PFI Co., Ltd.

Redevelopment of headquarters, etc., of Nagoya Port Authority

[OVERSEAS]

Yantai Golden Bridge Enterprise Co., Ltd. (China)

Brokerage of rental housing



Lifestyle-Related Business

[DOMESTIC]

Sumitomo Forestry Information Systems Co., Ltd.

Development of computer systems, etc.

Sumirin Agro-Products Co., Ltd.

Production and sales of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc.

Sumirin Business Service Co., Ltd.

Staffing business, training, administration outsourcing services

Sumirin Enterprises Co., Ltd.

Various services for insurance agency, equipment leasing, travel agency and sales, etc.

Kawanokita Development Co., Ltd.

Management of the Takinomiya Country Club golf course

Fill Care Co., Ltd.

Management of nursing care facilities, home services for senior citizens, preparation and sales of pharmaceuticals

[OVERSEAS]

Dalian Sumirin Information Technology Service Co., Ltd. (China)

CAD work and delivery data processing



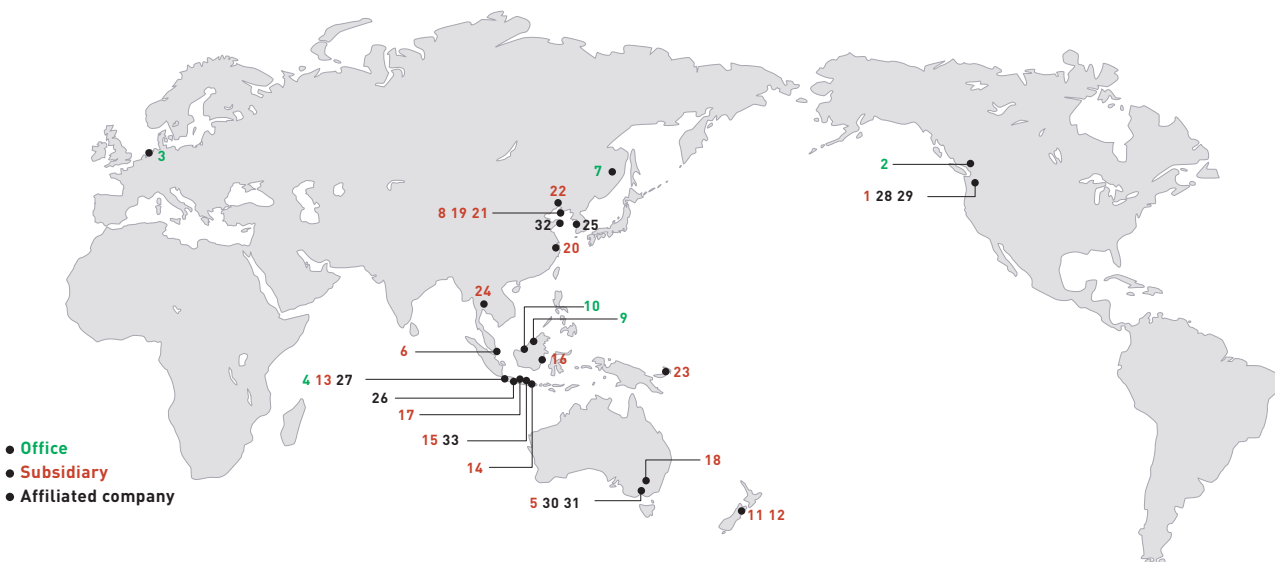
OVERSEAS NETWORK

OVERSEAS OFFICES AND SUBSIDIARIES

- 1. Sumitomo Forestry Seattle, Inc.**
11711 SE 8th Street, Suite 305,
Bellevue, Washington 98005, U.S.A.
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- 2. Vancouver Office**
460, 1140 West Pender Street,
Vancouver, British Columbia,
Canada, V6E 4G1
Tel: 1-604-681-8184
Fax: 1-604-681-6568
E-mail: sfc1@sfcvcr.com
- 3. Amsterdam Office**
Kantoorgebouw "Kantorenhuis"
Burg, Haspeislaan 5-43 1181 NB,
Amstelveen, The Netherlands
Tel: 31-20-646-4140
Fax: 31-20-646-5372
E-mail: sfc3@smtforams.nl
- 4. Jakarta Branch**
Summitmas II 8th Floor, JL. Jend.
Sudirman Kav. 61-62. Jakarta 12190,
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- 5. Sumitomo Forestry Australia Ltd.**
Suite 29, 195 Wellington Road,
Clayton, VIC 3168 Australia
Tel: 61-3-9545-0042
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- 6. Sumitomo Forestry (Singapore) Ltd.**
6 Raffles Quay #14-04/05,
John Hancock Tower,
Singapore 048580
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Fax: 65-6435-0151
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- 7. Khabarovsk Office**
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Khabarovsk, 680000, Russia
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Fax: 7-4212-41-50-32
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- 8. Sumitomo Forestry (Dalian) Ltd.**
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Xigang District, Dalian, 116011, PRC
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E-mail: dalian@sfc-cn.com
- 9. Kota Kinabalu Office**
Suite 1, 8th Floor,
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Sabah, Malaysia
Tel: 60-88-242031
Fax: 60-88-268031
E-mail: sfcwtu@tm.net.my
- 10. Sibiu Office**
P.O. Box. 1563, 96008, No. 11,
2nd Floor, Jalan Rakyat Lane 1,
Sibu, Sarawak, Malaysia
Tel: 60-84-312777
Fax: 60-84-317635
- 11. Sumitomo Forestry NZ Ltd.**
c/o Nelson Pine Industries Ltd.
P.O. Box. 3049, Lower Queen
Street, Richmond,
Nelson, 7050, New Zealand
Tel: 64-3543-8800
Fax: 64-3543-8890
- 12. Nelson Pine Industries Ltd.**
P.O. Box. 3049, Lower Queen
Street, Richmond,
Nelson, 7050, New Zealand
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Fax: 64-3543-8890
E-mail: sfc@nelsonpine.co.nz
- 13. PT. Kutai Timber Indonesia**
P.O. Box. 6913/JKSST
Summitmas II 8th Floor,
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Jakarta 12190, Indonesia
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- 14. Probolinggo Factory**
P.O. Box. 101 Probolinggo,
JL. Tanjung Tembaga Baru,
Pelabuhan, Probolinggo 67201,
Jawa Timur, Indonesia
Tel: 62-335-422412
Fax: 62-335-421669
E-mail: pr@kti.co.id
- 15. Surabaya Branch**
P.O. Box. 306, Surabaya, JL.
Kusuma
Bangsa No.19 Surabaya 60272,
Jawa Timur, Indonesia
Tel: 62-31-5343835
Fax: 62-31-5343838
E-mail: ktisby@kti.co.id
- 16. Samarinda Branch**
JL. Manggis No. 48/40
Samarinda 75123,
Kalimantan Timur, Indonesia
Tel: 62-541-
741966/737926/748116
Fax: 62-541-741967

AFFILIATES

- 17. 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
- 18. Alpine MDF Industries Pty Ltd.**
Lot-1 Crosher Lane, Wangaratta VIC
3677, Australia
Tel: 61-3-5721-3522
Fax: 61-3-5721-3588
E-mail: enquiries@alpinemdf.com.au
- 19. Paragon Wood Product (Dalian) Co., Ltd.**
Room 312, Market Building, Free Trade
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Tel: 86-411-87187980
Fax: 86-411-87332318
- 20. Paragon Wood Product (Shanghai) Co., Ltd.**
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Tel: 86-21-61405828
Fax: 86-21-61405826
- 21. Dalian Sumirin Information Technology Service Co., Ltd.**
301-B, No.267 WuYi Road,
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Dalian Software Park Building No.17
Dalian 116023, PRC
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E-mail: sfdln@sfits-cn.com
- 22. Fuxin Sumirin Wood Products Co., Ltd.**
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PRC
Tel: 86-418-2151588
Fax: 86-418-2151688
- 23. Open Bay Timber Ltd.**
Lot 1, Section 40, Tobaining Road,
Kenabot, Kokopo, East New Britain
Province, Papua New Guinea
Tel: 675-982-9827
Fax: 675-982-8906
- 24. Shouei Furniture Co., Ltd.**
68/2 Nongkankrao, Rd.
Samyan Klaeng Rayong
Province 21110 Thailand
Tel: 66-38-67-2003
Fax: 66-38-88-6647
- 25. 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
- 26. PT. Rimba Partikel Indonesia**
P.O. Box. 127 KENDAL Desa.
Mororejo, Kaliwungu, Kendal, Jawa
Tengah 51372, Indonesia
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Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id
- 27. Jakarta Office**
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Jakarta 11410, Indonesia
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Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id
- 28. Bennett-SFS, LLC**
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11711 SE 8th Street, Suite 305,
Bellevue, Washington 98005, U.S.A.
Tel: 1-425-454-2355
Tel: 1-425-454-1106
E-mail: sfs@sumiforsea.com
- 29. Cascadia Resort Communities, LLC**
c/o Sumitomo Forestry Seattle, Inc.
11711 SE 8th Street, Suite 305,
Bellevue, Washington 98005, U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
- 30. Henley-SFC Housing Pty Ltd. /**
31. Henley-SFC Housing Unit Trust
c/o Sumitomo Forestry Australia
Pty Ltd.
Suite 29, 195 Wellington Road,
Clayton, VIC 3168 Australia
Tel: 61-3-9545-0042
Fax: 61-3-9545-0292
- 32. Yantai Golden Bridge Enterprise Co., Ltd.**
Room 2001, No.1 Road, Xisheng
Street, Zhifu District, Yantai, PRC
Tel: 86-535-6271498
Fax: 86-535-6269887
- 33. PT. Sinar Rimba Pasifik**
JL. Manunggal Jati, Desa Jatikalang,
Kecamatan Krian,
Kabupaten Sidoarjo, Propinsi Jawa
Timur, Indonesia
Tel: 62-31-8972891



STOCK INFORMATION (As of March 31, 2009)

Stock Exchange Listings:

Tokyo, Osaka

Common Stock Authorized:

400,000,000 shares

Issued:

177,410,239 shares

Number of Shareholders:

12,959

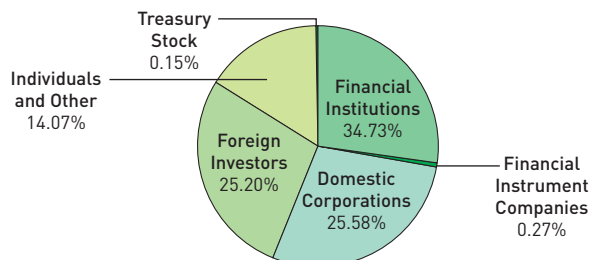
General Meeting of Shareholders:

June

Major Shareholders:

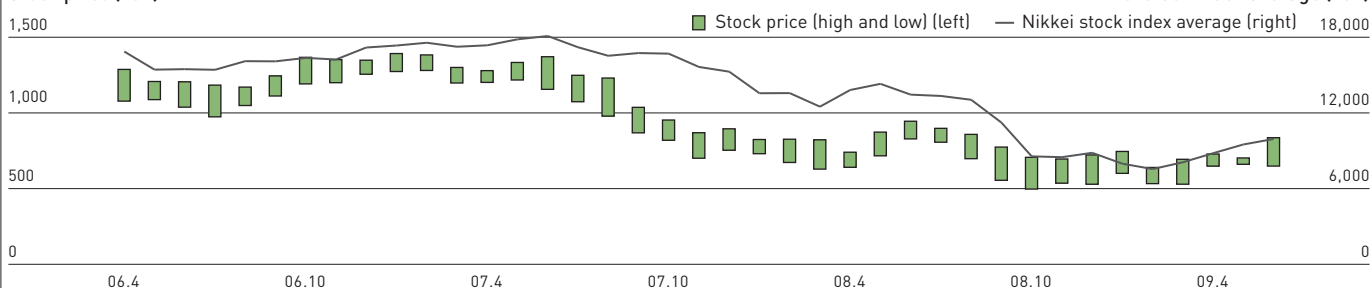
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.70
Japan Trustee Service Bank, Ltd. (trust account 4G)	7,865	4.43
Japan Trustee Service Bank, Ltd. (trust account)	7,669	4.32
The Master Trust Bank of Japan, Ltd. (trust account)	7,048	3.97
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
Sumitomo Forestry Group Employees' Shareholding Association	3,409	1.92

Breakdown of Shareholders:

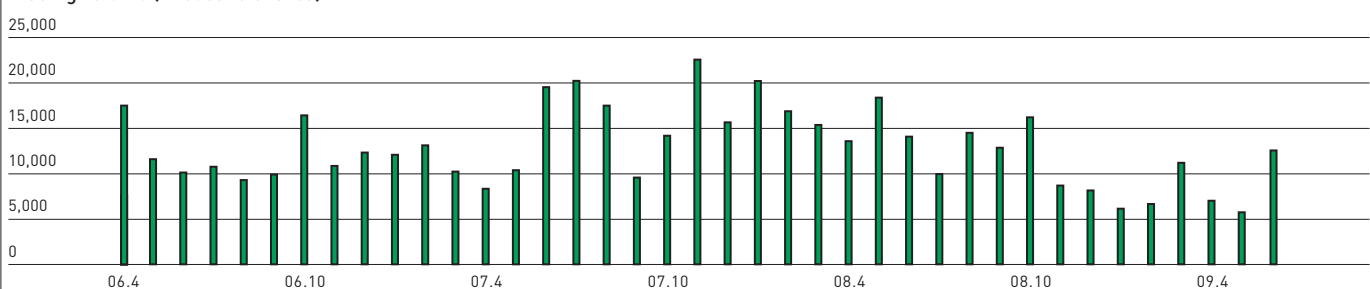


Stock Price and Trading Volume (Osaka Securities Exchange):

Stock price (Yen)



Trading volume (Thousand shares)



CORPORATE DATA (As of June 30, 2009)

Company Name:

Sumitomo Forestry Co., Ltd.

Founded:

1691

Incorporated:

1948

Paid-in Capital:

¥27,672 million

Head Office:

Keidanren Kaikan,
3-2, Otemachi 1-chome, Chiyoda-ku,
Tokyo 100-8270, Japan

Consolidated Subsidiaries:

45 (Overseas 16)

Associated Companies:

10 (Overseas 7)

Number of Employees (Consolidated):

13,633

Homepage:

<http://sfc.jp/english/>

Independent Auditors:

Ernst & Young ShinNihon LLC

Contact Information:

Sumitomo Forestry Co., Ltd.
Corporate Communications Department
Tel: 81-3-3214-2270
Fax: 81-3-3214-2272



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URL: <http://sfc.jp/english/>