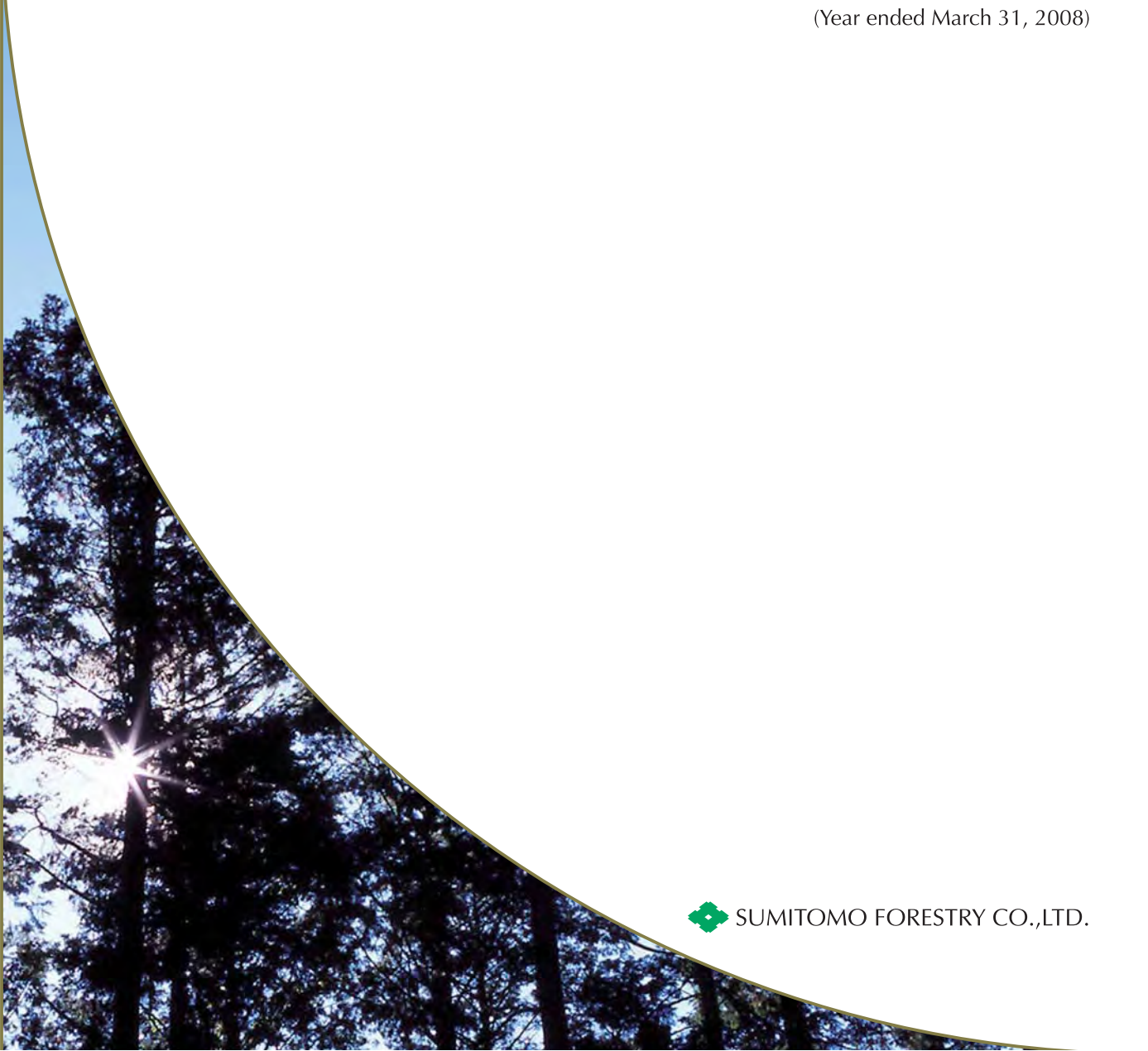




# Annual Report 2008

(Year ended March 31, 2008)

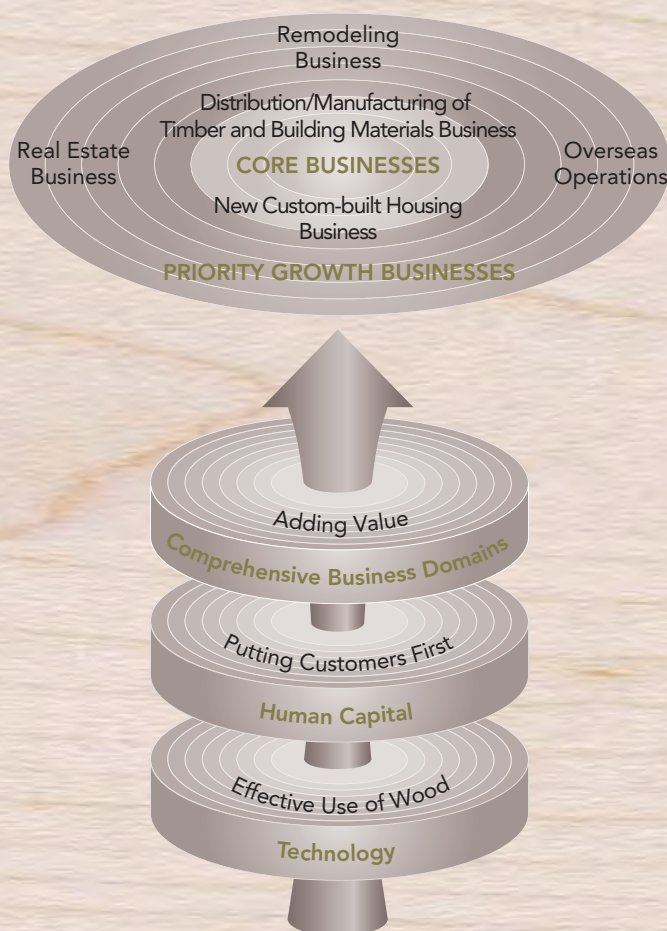


# Total Housing and Living-related Company For Wood-based Housing Environments

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

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

## Comprehensive Strength



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### Forward-looking Statements

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



## THE WOOD PROFESSIONALS

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

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

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

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

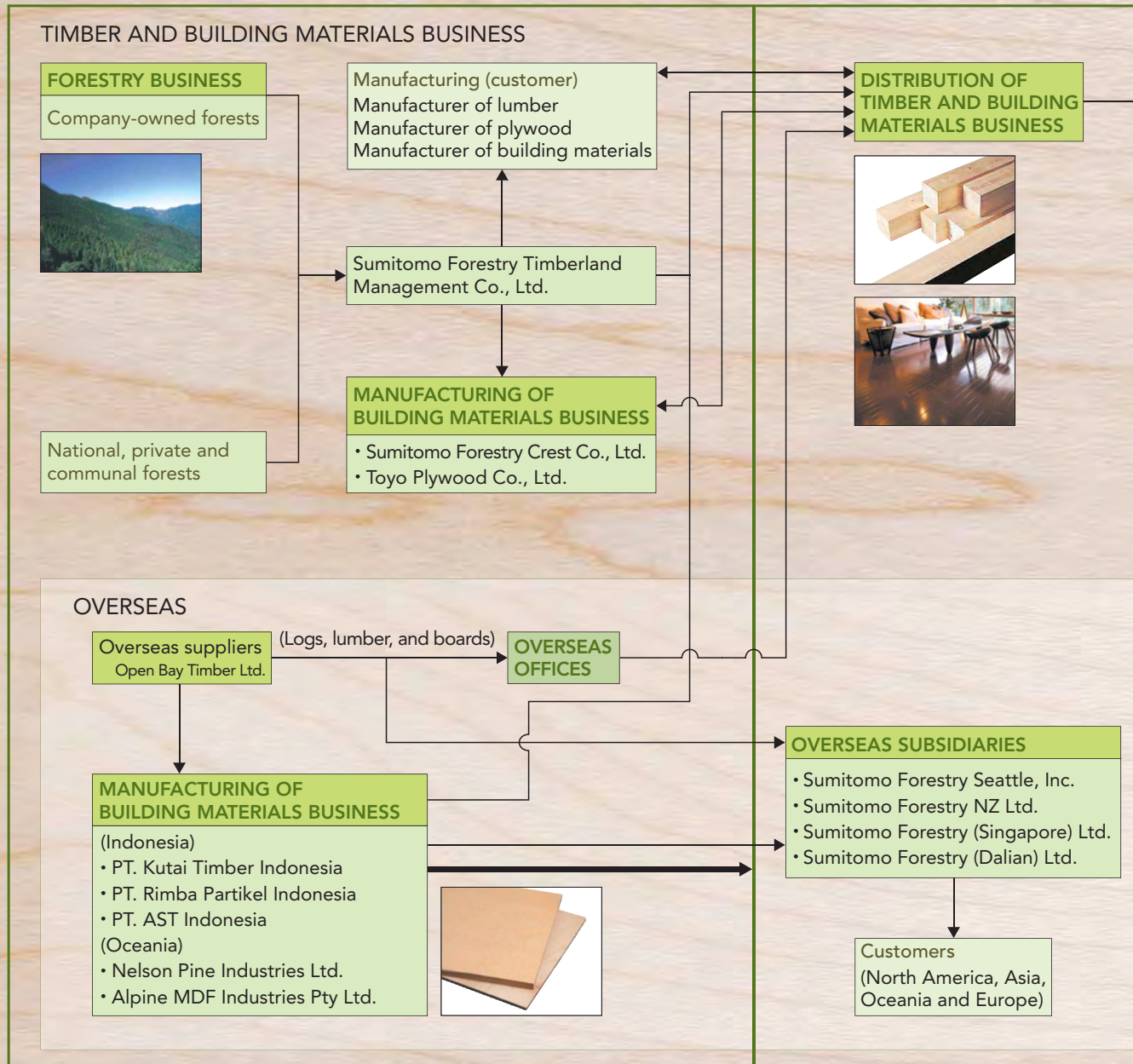
By maximizing the potential of wood in diverse ways, we have become a group of  
“wood professionals” committed to providing more comfortable living environments.

# OUR COMPREHENSIVE STRENGTH —VALUE CHAIN—

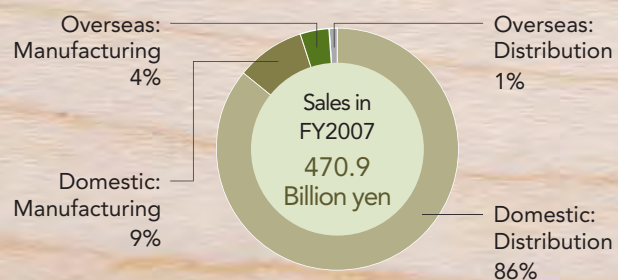
Based on our expertise in the profession related to the gift of nature “wood” and to providing “housing” which enriches quality of life, The Sumitomo Forestry Group is building a value chain that can meet all needs.

## UPSTREAM: MANUFACTURING AND SUPPLY OF MATERIALS

## MIDDLESTREAM: DISTRIBUTION AND SALES

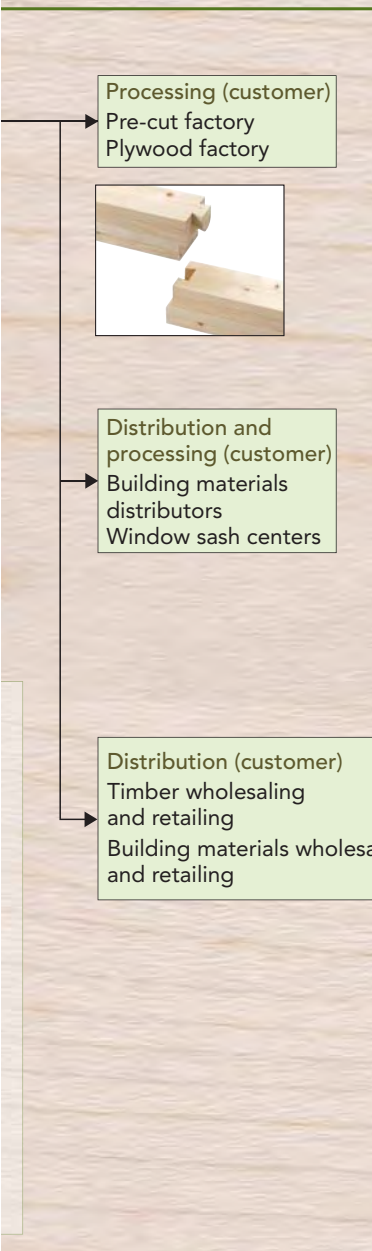


### Sales Share of Timber and Building Materials Business



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

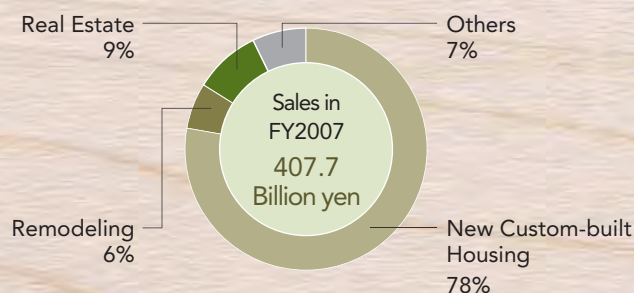
## UPSTREAM: LOG PROCESSING



## DOWNSTREAM: CONSUMER BUSINESS



Sales Share of Housing and Housing-related Businesses



# THE WOOD PROFESSIONALS

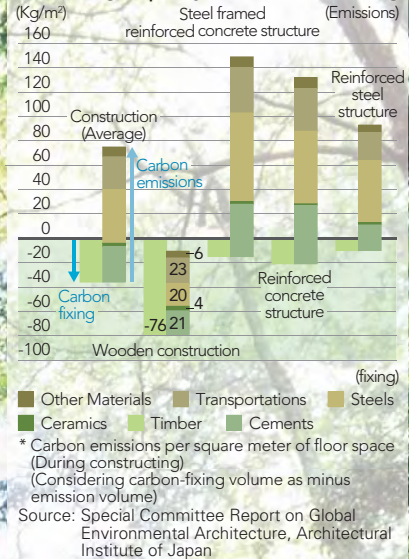
The Sumitomo Forestry Group owns and manages around 40,000 hectares of forest, equivalent to around one-thousandth of Japan's total land area. In addition to absorbing carbon dioxide, our forests play a variety of beneficial functions, such as preventing soil erosion, cultivating water sources, and protecting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

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

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

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

### CO<sub>2</sub>-fixing Capacity of Wooden Housing



## Nurturing Trees, Processing Timber, Building Houses





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

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

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

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



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

#### Our Overseas Distribution



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

## No.1 Domestic Trader of Timber and Building Materials







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

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

## Providing Authentic Custom-built Housing with Special Expertise in Wood



# FINANCIAL HIGHLIGHTS

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

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

## Financial Position:

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

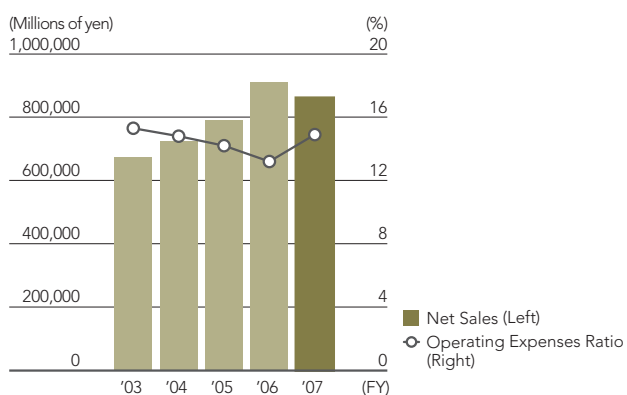
## Cash Flows:

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

## Per Share Data:

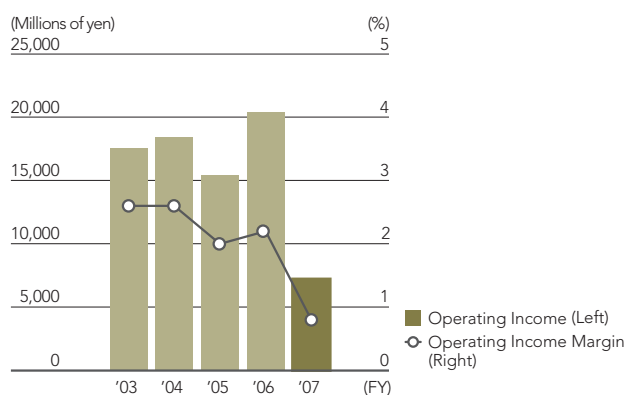
	Yen					U.S. dollars*1
Net income	¥ 6.29	¥ 67.43	¥ 61.28	¥ 45.28	¥ 55.81	\$ 0.06
Net assets	975.99	1,059.20	996.03	866.47	830.50	9.76
Cash dividends	15.00	15.00	13.00	13.00	13.00	0.15

## Net Sales and Operating Expenses Ratio



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

## Operating Income and Operating Income Margin



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

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

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

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

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

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

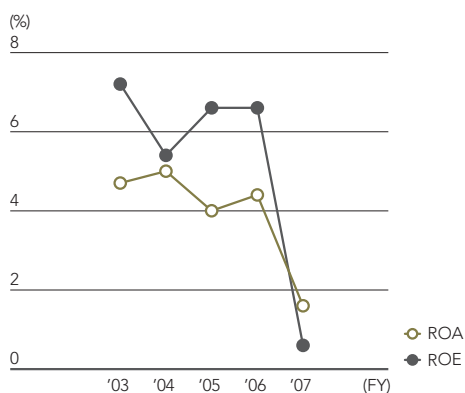
4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income / Shareholders' equity

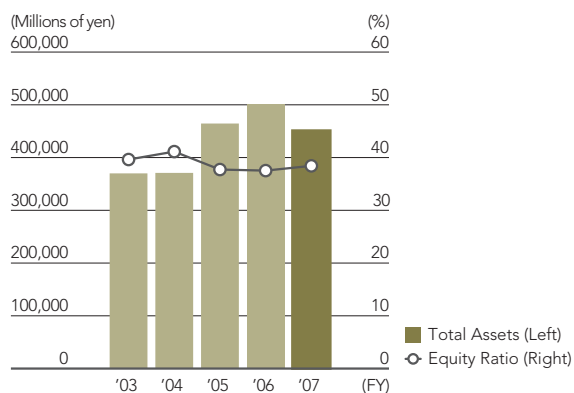
5. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

### ROA and ROE



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

### Total Assets and Equity Ratio



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