FINANCIAL SECTION

CONTENTS

TEN-YEAR SUMMARY

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

	Millions of yen (unless otherwise specified)		
	2007	2006	2005
Operating Results:			
Net sales and contract revenues	¥ 911,674	¥ 791,128	¥ 723,193
Timber and Building Materials Business*[1]	520,103	412,182	320,255
Housing and Housing-Related Businesses*[1]	407,780	393,868	418,313
Other Businesses	14,597	13,549	13,185
Elimination and/or corporate	(30,806)	(28,471)	(28,560)
Gross profit	141,117	127,853	125,582
Selling, general and administrative expenses	120,711	112,407	107,116
Operating income	20,405	15,446	18,466
Timber and Building Materials Business*[1]	7,967	2,806	4,615
Housing and Housing-Related Businesses*[1]	16,586	16,370	17,530
Other Businesses	903	841	738
Elimination and/or corporate	(5,051)	(4,571)	(4,418)
Recurring income*[2]	21,259	16,800	18,692
Net income (loss)	11,954	10,842	8,014
Financial Position:			
Total assets	¥ 500,136	¥ 464,193	¥ 370,684
Working capital*[3]	76,453	68,037	67,579
Interest-bearing debt	25,739	22,067	15,580
Total net assets*[4]	188,855	175,206	152,500
Cash Flows:			
Cash flows from operating activities	¥ 7,084	¥ 16,626	¥ 6,685
Cash flows from investment activities	(7,102)	(8,998)	(12,895)
Cash flows from financing activities	665	(14,039)	(7,087)
Cash and cash equivalents at the end of the year	50,311	49,628	55,928
Capital Investment:*[5]			
Tangible fixed assets	¥ 6,724	¥ 8,132	¥ 7,016
Software	1,581	1,857	1,673
Others	721	454	549
Total	9,026	10,443	9,237
Depreciation and amortization	6,476	6,403	6,452
	Yen		
Per Share Data:			
Net income (loss)	¥ 67.4	¥ 61.3	¥ 45.3
Net assets	1,059.2	996.0	866.5
Cash dividends	15.00	13.00	13.00
	%		
Financial Ratios:			
Gross income margin	15.5	16.2	17.4
Operating income margin	2.2	2.0	2.6
Recurring income margin	2.3	2.1	2.6
Return on asset (ROA)*[6]	4.4	4.0	5.0
Return on equity (ROE)*[6]	6.6	6.6	5.4
Equity ratio	37.5	37.7	41.1
Interest-bearing ratio*[7]	12.1	11.2	9.3
Current ratio	129.3	129.3	137.4
Interest coverage ratio [times]	11.2	10.8	18.6

Notes: 1. Starting in fiscal 2001, the profits from transactions in housing materials have been included in the Housing and Housing-Related segment; they were previously included in the Timber and Building Materials segment.
2. Recurring income = Operating income + Non-operating income – Non-operating expenses
Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, loss on devaluation of property, plant and equipment, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.
3. Working capital = Current assets – Current liabilities

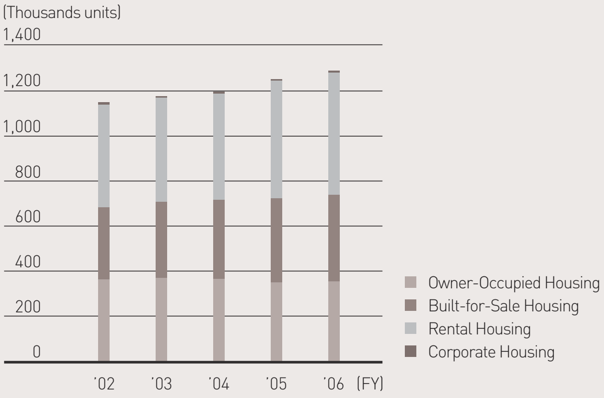
Millions of yen (unless otherwise specified)

2004	2003	2002	2001	2000	1999	1998
¥ 673,779	¥ 645,100	¥ 644,730	¥ 682,375	¥ 699,594	¥ 620,615	¥ 713,728
293,220	283,517	270,856	279,811	340,988	294,411	333,941
393,616	370,421	381,978	405,150	370,692	335,782	380,781
12,350	17,882	18,050	16,978	15,481	13,900	10,818
(25,408)	(26,721)	(26,154)	(19,565)	(27,568)	(23,480)	(11,812)
120,778	109,631	109,437	118,064	112,269	99,692	107,877
103,201	100,858	106,397	102,065	98,720	93,481	102,072
17,577	8,772	3,040	15,999	13,549	6,210	5,805
3,813	2,238	1,882	5,128	14,770	11,341	6,870
17,150	9,920	4,961	16,631	5,141	942	1,832
644	415	579	519	569	1,315	985
(4,030)	(3,802)	(4,384)	(6,279)	(6,933)	(7,388)	(3,882)
17,074	9,721	3,731	16,908	12,541	6,305	6,694
9,870	(15,439)	465	6,994	5,708	134	2,145
¥ 369,755	¥ 357,322	¥ 365,531	¥ 371,102	¥ 360,935	¥ 346,293	¥ 341,325
66,377	60,260	60,477	61,319	68,892	71,746	62,992
19,929	16,497	18,124	24,517	35,720	40,059	47,188
146,269	129,727	147,440	150,979	144,914	139,301	140,357
¥ 25,962	¥ 19,734	¥ 17,332	¥ 3,468	¥ (3,281)	¥ 26,715	¥ 9,561
(7,646)	2,026	(16,439)	(1,960)	(3,330)	2,068	(6,200)
(735)	(8,171)	(9,716)	(13,873)	(5,351)	(8,257)	(9,100)
69,312	52,029	38,873	47,476	59,916	71,971	51,302
¥ 4,040	¥ 2,761	¥ 7,705	¥ 4,448	¥ 4,373	¥ —	¥ —
1,468	2,077	2,194	1,889	1,264	—	—
883	283	225	252	303	—	—
6,392	5,123	10,124	6,590	5,941	4,556	13,172
6,447	5,985	5,289	4,551	4,756	5,060	5,057
			Yen			
¥ 55.8	¥ (87.5)	¥ 2.6	¥ 39.6	¥ 32.4	¥ 0.8	¥ 12.2
830.5	736.4	835.1	854.9	821.6	789.8	795.8
13.00	10.00	10.00	10.00	10.00	10.00	10.00
			%			
17.9	17.0	17.0	17.3	16.0	16.1	15.1
2.6	1.4	0.5	2.3	1.9	1.0	0.8
2.5	1.5	0.6	2.5	1.8	1.0	0.9
4.7	2.7	1.0	4.6	3.5	1.8	1.7
7.2	(11.1)	0.3	4.7	4.0	0.1	1.5
39.6	36.3	40.3	40.7	40.1	40.2	41.1
12.0	11.3	10.9	14.0	19.8	22.3	25.2
135.7	132.6	131.8	131.1	137.7	141.6	137.4
21.9	18.3	7.8	22.6	18.6	5.8	4.3

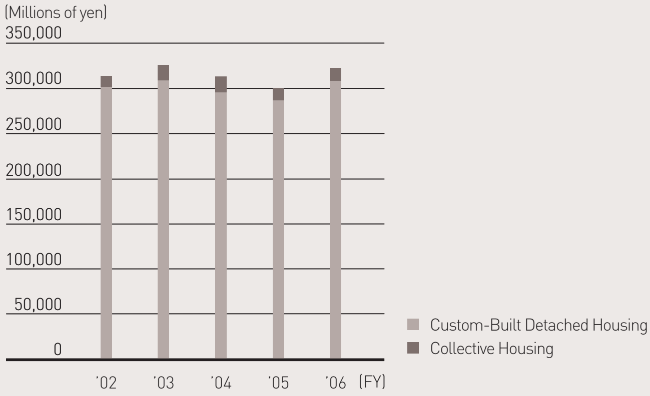
4. Total net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Total net assets are comprised of the sum of shareholders' equity as previously defined and minority interest and gains (losses) on deferred hedges.
5. Disclosure of capital investment was not institutionalized prior to fiscal 2000, thus data prior to fiscal 2000 is only partially available.
6. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
   ROA = Recurring income / Total assets
   ROE = Net income (loss) / Shareholders' equity
7. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

MANAGEMENT DISCUSSION AND ANALYSIS
(INCLUDING BUSINESS RISK DISCLOSURE)

Number of New Housing Starts in Japan



Amount of Orders Received



MARKET OVERVIEW

The Japanese economy remained in a general recovery trend in the term ended March 2007. The expanding economies in Europe, the United States, and Asia supported continued brisk exports and domestic production, and growth in corporate earnings led to increasing capital investment and improving employment conditions. In the household sector, however, uncertainty about future trends persisted as the growth in employee income levels and consumer spending remained flat.

In the housing sector, expectation of higher housing loan interest rates and rising land prices in metropolitan areas stimulated first-time home buyer demand, supporting growth in new housing starts of 2.9% year on year to 1.28 million units. Owner-occupied housing starts turned upward for the first time in three years, rising 0.9% year on year to 0.35 million units.

In the timber and building materials sector, the global supply and demand balance tightened as worldwide demand for timber increased. The domestic market was also brisk as the growth in new housing starts stimulated demand and led to increased product prices.

CONSOLIDATED OPERATING RESULTS

1. Orders Received and Net Sales

Sales increased 15.2% year on year to ¥911.674 billion. Timber and Building Materials Business sales rose 26.2% year on year (this figure and all figures herein include intersegment transactions) on the first full-year contributions of subsidiaries that became subject to consolidation in the previous fiscal year along with expanded trading volume and higher unit prices. Housing and Housing-Related Business sales grew 3.5% supported by strong sales of its high value-added housing products highlighting the appeal of wood. The order value for custom-built detached housing rose 7.5% year on year to ¥308.019 billion and the number of units increased 5.4% year on year to 9,751 units, supported by an expanded product line and the building of a fine-tuned sales system.

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 7.4% year on year to ¥120.711 billion. The increase was largely due to expense increases associated with the new consolidated subsidiaries, retirement benefit accounting methods, more staff added for business expansion, and enhanced marketing promotions.

3. Operating Income

As a result of the above developments, operating income increased 32.1% year on year to ¥20.405 billion. The growth in operating income was primarily attributable to increased sales of the Timber and Building Materials Business and improved profitability in the Housing and Housing-Related Business.

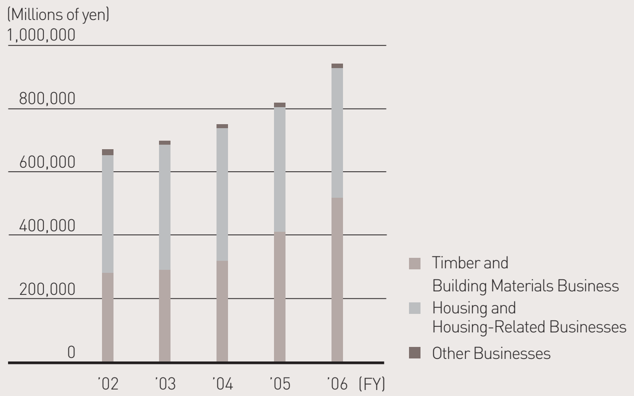
4. Other Income and Expenses

Other income minus other expenses declined 51.8% year on year to an income of ¥284 million. Interest and dividend income received increased ¥518 million over the previous term. However, the decline reflected the non-reoccurrence of ¥419 million in insurance gains booked as extraordinary income in the previous fiscal year as well as a ¥663 million provision for losses associated with business reorganization, a ¥352 million expense from office relocations, and other factors.

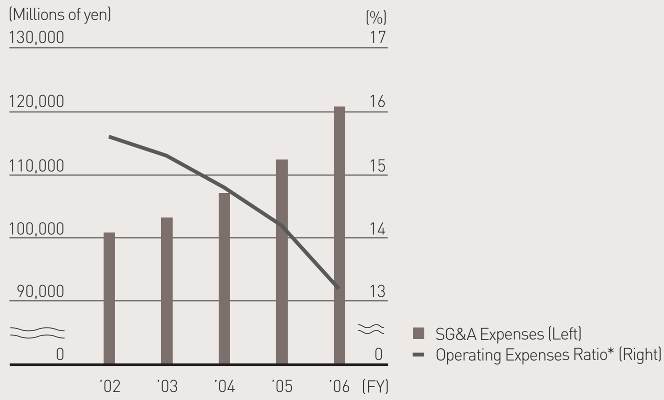
5. Net Income

Income taxes returned to the normal level after declining in the previous fiscal year owing to the end of operations at a subsidiary. Therefore, income taxes for fiscal 2006 increased ¥3.602 billion, or

Net Sales and Contract Revenues



SG&A Expenses and Operating Expenses Ratio



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

72.6%, year on year to ¥8.561 billion. Net income rose 10.3% year on year to ¥11.954 billion. Net income per share rose ¥6 to ¥67.43 while return on equity (ROE) remained flat at 6.6%.

SEGMENT RESULTS
(INCLUDING INTERSEGMENT TRANSACTIONS)

1. Timber and Building Materials Business

Net sales in Timber and Building Materials Business increased 26.2% over the previous fiscal year to ¥520.103 billion and operating income surged 183.9% to ¥7.967 billion. This steep sales and income growth was primarily due to the expanded revenue base from the merger with Ataka Kenzai Co., Ltd., and the increasing worldwide demand for wood and timber products that was accompanied by higher selling prices, particularly for timber and wood board, and expanded sales volume. The manufacturing of building materials business also provided a substantial contribution from higher sales prices and improved productivity.

2. Housing and Housing-Related Businesses

Net sales for the Housing and Housing-Related Businesses grew 3.5% over the previous fiscal year to ¥407.780 billion and operating income increased 1.3% to ¥16.586 billion. The carefully constructed sales system that enhanced competitiveness and improved heat-insulating performance and design expertise, along with marketing strategies that boosted sales of high value-added housing, supported the sales and income growth.

FINANCIAL POSITION AND CASH FLOW

1. Financial Position

During fiscal 2006, total assets had increased ¥35.943 billion over the previous fiscal year to ¥500.136 billion. Current assets increased ¥36.641 billion year on year to ¥337.072 billion on increases in accounts receivable and inventories accompanying the growth in sales. Tangible fixed assets increased ¥118 million to ¥74.050 billion, intangible assets declined ¥794 million to ¥6.313 billion, and investments and other assets decreased ¥21 million to ¥82.7 billion.

Total liabilities increased ¥25.419 billion to ¥311.281 billion. Current liabilities rose ¥28.225 billion to ¥260.619 billion owing to an increase in operating payables accompanying the growth in sales and in accounts payable on construction arising from the number of construction projects in progress. Long-term liabilities declined ¥2.806 billion to ¥50.662 billion and the balance of interest-bearing debt rose ¥3.672 billion to ¥25.739 billion.

Total net assets increased ¥10.524 billion* to ¥188.855 billion year on year, primarily due to a ¥9.6 billion increase in retained earnings.

* Due to changes in accounting methods, minority interest has been added to the total shareholders' equity of the previous fiscal year to facilitate comparison with the fiscal 2006 total shareholders' equity.

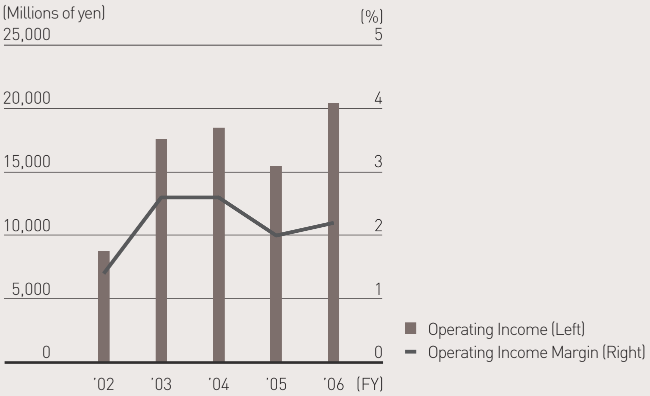
Business Results by Segment

(Millions of yen)

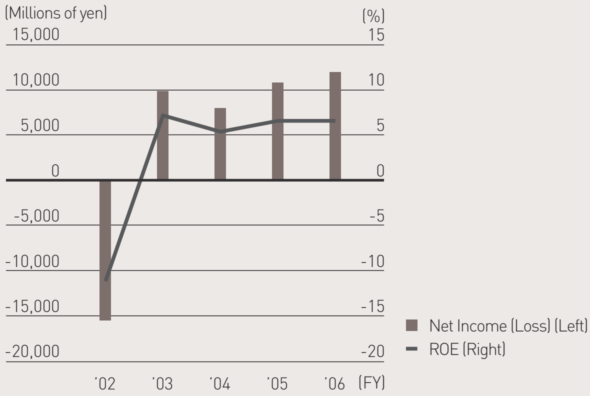
	Timber and Building Materials Business		Housing and Housing-Related Businesses		Other Businesses	
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005
Net sales	520,103	412,182	407,780	393,868	14,597	13,549
Operating income	7,967	2,806	16,586	16,370	903	841
Operating income margin	1.5%	0.7%	4.1%	4.2%	6.2%	6.2%

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

Operating Income and Operating Income Margin



Net Income (Loss) and ROE



2. Cash Flow

Net cash provided by operating activities decreased ¥9.542 billion year on year to ¥7.084 billion. The decline was due to the increased notes and accounts receivables, as well as inventories associated with the sales growth in the Timber and Building Materials Business. Net cash used in investment activities declined ¥1.896 billion year on year to ¥7.102 billion, primarily from capital investment in factories of overseas subsidiaries and expenses incurred from the factory relocation of a domestic subsidiary. Net cash used in financing activities reversed from a ¥14.039 billion outflow in the previous fiscal year to a ¥665 million inflow as fund procurement by the parent company and subsidiaries exceeded repayment of interest-bearing debt, dividend payments and other expenses. The balance of cash and cash equivalents at the end of fiscal 2006 totaled ¥50.311 million, a ¥683 million increase over the previous fiscal year.

BUSINESS RISK

The following risk factors involved in the business of the Sumitomo Forestry Group may have a large influence on the investment decisions of investors. Potential risk may include, but is not necessarily limited to, the following.

1. Housing Market Trends

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

1) Interest Rate Fluctuation

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.

2) Land Price Fluctuation

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

3) Tax Systems Changes

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

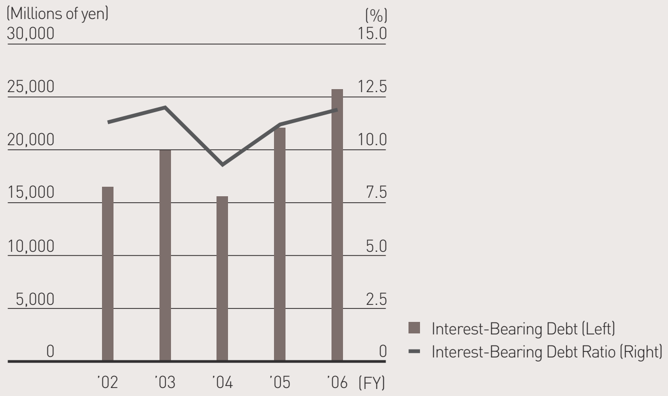
2. Statutory Changes

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

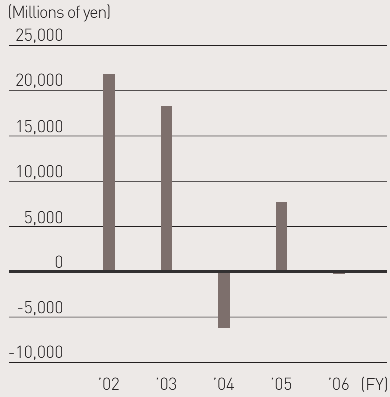
3. Timber and Construction Material Market Conditions

Declines in prices for timber and construction material reduce the profitability of the timber and construction material business. On

Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows



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

4. Exchange Rate Fluctuations

The group's import and export transactions are often conducted in foreign currencies, and fluctuations in exchanges rates affect transaction value when converted in yen. The group endeavors to minimize the risk of significant impact through hedges using foreign exchange contracts; however, exchange rate fluctuations can influence the group's business results and financial position.

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 Allowance Accounting

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. 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.

9. Information Security

The group maintains a large volume of customer information and makes every effort to ensure proper and secure information management through extensive training of executives and employees regarding regulations, systems maintenance, and other important aspects of information management. Despite these precautions, a leak of this customer information due to a computer system breach by a malicious third party, theft, human error by an employee or contracted individual, accident, or other cause could lead to customer claims for compensatory damages and destroy customer and market trust in the company, which could influence the group's business results.

10. Environmental Risk

Environmental protection 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.

CONSOLIDATED BALANCE SHEETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2007	2006	2007
Current assets:			
Cash and time deposits (Note 11)	¥ 47,385	¥ 44,720	$ 398,194
Marketable securities (Note 5, 11)	3,000	5,000	25,208
Receivables-			
Notes and accounts, trade	167,404	138,260	1,406,757
Loans and other	50,138	51,226	421,327
Inventories-			
Finished goods, logs and lumber	30,087	22,413	252,831
Developed land and housing for sale	12,128	10,071	101,917
Land and housing projects in progress	16,698	15,628	140,320
Deferred income taxes (Note 8)	6,179	7,597	51,923
Other current assets	4,710	6,429	39,582
Allowance for doubtful accounts	(657)	(913)	(5,522)
Total current assets	337,072	300,431	2,832,537
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	19,812	19,973	166,491
Buildings and structures	37,665	36,882	316,511
Machinery and equipment	62,587	60,054	525,942
Timberland (Note 6)	10,741	11,136	90,257
Construction in progress	3,867	4,426	32,495
	134,672	132,470	1,131,696
Less accumulated depreciation	(60,622)	(58,538)	(509,425)
Net property, plant and equipment	74,050	73,933	622,271
Intangible assets, net of amortization:			
Goodwill	927	1,532	7,790
Other intangible assets	5,386	5,575	45,264
Total intangible assets	6,313	7,107	53,054
Investments and other assets:			
Investment securities (Note 5)	71,584	71,413	601,550
Long-term loans and receivables	2,258	2,436	18,971
Deferred income taxes (Note 8)	1,101	1,242	9,248
Other assets	9,595	9,727	80,630
Allowance for doubtful accounts	(1,837)	(2,097)	(15,439)
Total investments and other assets	82,700	82,722	694,960
Total assets	¥ 500,136	¥ 464,193	$ 4,202,822

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 4) 2007
Current liabilities:			
Payables-			
Notes and accounts, trade	¥ 167,140	¥ 154,024	$ 1,404,535
Other	8,297	6,679	69,727
Short-term debt (Note 7)	14,355	11,106	120,633
Current portion of long-term debt (Note 7)	2,621	2,113	22,025
Advances received from customers	44,446	37,920	373,499
Accrued income taxes	4,602	1,596	38,675
Accrued employees' bonuses	8,566	8,078	71,986
Accrued directors and corporate auditors' bonuses	83	—	698
Other current liabilities (Note 8)	10,507	10,877	88,297
Total current liabilities	260,619	232,394	2,190,075
Long-term liabilities:			
Long-term debt (Note 7)	8,763	8,848	73,640
Deferred income taxes (Note 8)	15,400	15,136	129,413
Accrued employees' retirement benefits (Note 16)	12,383	15,875	104,061
Other long-term liabilities	14,116	13,610	118,620
Total long-term liabilities	50,662	53,469	425,734
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 2007 and 176,603,881 shares in 2006	27,672	27,672	232,538
Capital surplus	26,882	25,655	225,898
Retained earnings	108,919	99,319	915,282
Treasury stock: 174,188 shares in 2007 and 761,629 shares in 2006	(184)	(617)	(1,549)
Total shareholders' equity	163,288	152,029	1,372,169
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities	22,482	22,125	188,923
Deferred gains or losses on hedges	155	—	1,304
Foreign currency translation adjustments	1,804	1,052	15,160
Total valuation and translation adjustments	24,441	23,177	205,387
Minority interests in consolidated subsidiaries	1,125	3,124	9,457
Total net assets	188,855	178,330	1,587,013
Total liabilities and net assets	¥ 500,136	¥ 464,193	$ 4,202,822

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
Sales:			
Net sales	¥ 545,735	¥ 439,516	$ 4,586,004
Contract revenues	365,940	351,612	3,075,125
Total	911,674	791,128	7,661,129
Cost of sales:			
Cost of sales	504,152	408,124	4,236,575
Cost of contracts completed	266,405	255,151	2,238,700
Total	770,558	663,275	6,475,275
Gross profit	141,117	127,853	1,185,854
Selling, general and administrative expenses (Note 10)	120,711	112,407	1,014,382
Operating income	20,405	15,446	171,472
Other income (expenses):			
Interest and dividends income	1,299	781	10,917
Interest expense	(1,284)	(1,094)	(10,787)
Equity in earnings of affiliates	228	327	1,919
Loss on devaluation of investment securities	(9)	(15)	(77)
Loss on devaluation of real estate for sale and other assets	(137)	(19)	(1,152)
Loss on the move of business establishment	(352)	—	(2,956)
Loss on business restructuring	(663)	—	(5,570)
Loss on retirement allowance by merger	(145)	—	(1,217)
Insurance income	—	419	—
Income on transfer of business by spin-off	—	229	—
Integration costs	—	(455)	—
Other gains, net (Note 9)	1,346	416	11,312
Total	284	589	2,389
Income before income taxes and minority interests	20,689	16,035	173,861
Income taxes (Note 8):			
Current	5,381	2,254	45,219
Deferred	3,180	2,705	26,725
Total	8,561	4,959	71,944
Minority interests	174	235	1,465
Net Income	¥ 11,954	¥ 10,842	$ 100,452

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net Income (Note 18)	¥ 67.43	¥ 61.28	$ 0.57
Cash dividends	15.00	13.00	0.13

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, 2007 and 2006

		Millions of yen								
	Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Unrealized Gain on Available-for-Sale Securities	Deffered Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Minority Interests	Total Net Assets
Balance as of March 31, 2005	176,603,881	¥ 27,672	¥ 25,654	¥ 90,807	¥ (496)	¥ 9,243	¥ —	¥ (380)	¥ 521	¥ 153,021
Net income		—	—	10,842	—	—	—	—	—	10,842
Changes in unrealized gain on available-for-sale securities, less applicable tax		—	—	—	—	12,882	—	—	—	12,882
Changes in foreign currency translation		—	—	—	—	—	—	1,432	—	1,432
Cash dividends (¥13.00 per share)		—	—	(2,287)	—	—	—	—	—	(2,287)
Bonuses to directors and corporate auditors		—	—	(43)	—	—	—	—	—	(43)
Gain on sale of treasury stock		—	1	—	—	—	—	—	—	1
Treasury stock acquired, net (108,341 shares)		—	—	—	(121)	—	—	—	—	(121)
Other changes		—	—	—	—	—	—	—	2,603	2,603
Balance as of March 31, 2006	176,603,881	¥ 27,672	¥ 25,655	¥ 99,319	¥ (617)	¥ 22,125	¥ —	¥ 1,052	¥ 3,124	¥ 178,330
Cash dividends (¥13.00 per share)		—	—	(2,295)	—	—	—	—	—	(2,295)
Bonuses to directors and corporate auditors		—	—	(59)	—	—	—	—	—	(59)
Net income		—	—	11,954	—	—	—	—	—	11,954
Purchases of treasury stock		—	—	—	(130)	—	—	—	—	(130)
Disposal of treasury stock		—	1	—	5	—	—	—	—	6
Increase or decrease by merger	806,358	—	1,226	—	557	—	—	—	—	1,783
Other changes		—	—	—	—	357	155	752	(1,999)	(735)
Balance as of March 31, 2007	177,410,239	¥ 27,672	¥ 26,882	¥ 108,919	¥ (184)	¥ 22,482	¥ 155	¥ 1,804	¥ 1,125	¥ 188,855

	Thousands of U.S. dollars (Note 4)								
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Unrealized Gain on Available-for-Sale Securities	Deffered Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Minority Interests	Total Net Assets
Balance as of March 31, 2006	$ 232,538	$ 215,588	$ 834,614	$ (5,183)	$ 185,924	$ —	$ 8,840	$ 26,255	$ 1,498,576
Cash dividends ($0.11 per share)	—	—	(19,289)	—	—	—	—	—	(19,289)
Bonuses to directors and corporate auditors	—	—	(495)	—	—	—	—	—	(495)
Net income	—	—	100,452	—	—	—	—	—	100,452
Purchases of treasury stock	—	—	—	(1,091)	—	—	—	—	(1,091)
Disposal of treasury stock	—	11	—	40	—	—	—	—	51
Increase or decrease by merger	—	10,299	—	4,685	—	—	—	—	14,984
Other changes	—	—	—	—	2,999	1,304	6,320	(16,798)	(6,175)
Balance as of March 31, 2007	$ 232,538	$ 225,898	$ 915,282	$ (1,549)	$ 188,923	$ 1,304	$ 15,160	$ 9,457	$ 1,587,013

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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 20,689	¥ 16,035	$ 173,861
Adjustments —			
Depreciation and amortization	6,476	6,403	54,421
Amortization of goodwill	576	566	4,841
Provision for (reversal of) doubtful accounts	(517)	15	(4,343)
Provision for (reversal of) employee's retirement benefits, less payments	(3,495)	(1,044)	(29,373)
Interest and dividend income	(1,299)	(781)	(10,917)
Interest expense	1,284	1,094	10,787
Equity in earnings of affiliates	(228)	(327)	(1,919)
Losses on devaluation of marketable securities and investment securities	9	15	77
Losses (gains) on sales of marketable securities and investment securities, net	(273)	(53)	(2,293)
Losses (gains) on disposal of fixed assets, net	(326)	575	(2,738)
Income on transfer of business by spin-off	—	(229)	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	(23,440)	1,165	(196,971)
Inventories	(10,671)	1,590	(89,674)
Other current assets	(3,672)	(5,051)	(30,861)
Notes and accounts payable, trade	14,188	2,929	119,229
Advances received from customers	6,914	2,067	58,097
Other current liabilities	549	(222)	4,616
Other	878	(261)	7,380
Total	7,642	24,487	64,220
Interest and dividend income received	1,448	1,008	12,169
Interest paid	(1,275)	(1,008)	(10,715)
Income taxes paid, net	(731)	(7,861)	(6,141)
Net cash provided by operating activities	7,084	16,626	59,533
Cash flows from investment activities:			
Proceeds from sales of marketable securities	—	247	—
Decrease (increase) in short-term loans receivable	(445)	801	(3,741)
Payments for purchases of fixed assets	(11,613)	(12,554)	(97,591)
Proceeds from sales of fixed assets	7,676	7,496	64,507
Payments for purchases of intangible assets	(1,586)	(1,872)	(13,329)
Payments for purchases of investment securities	(2,143)	(3,569)	(18,009)
Proceeds from sales of investment securities	1,294	93	10,873
Payments for purchase of stock in subsidiary newly consolidated	—	(1,921)	—
Proceeds from purchase of stock in subsidiary newly consolidated	—	1,316	—
Payments for long-term loans receivable	(186)	(50)	(1,561)
Repayments of long-term loans receivable	106	589	887
Other	(204)	425	(1,715)
Net cash used in investment activities	(7,102)	(8,998)	(59,679)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	3,031	(5,770)	25,474
Proceeds from long-term debt	3,632	842	30,517
Repayments of long-term debt	(3,522)	(6,700)	(29,599)
Dividends paid	(2,295)	(2,287)	(19,289)
Other	(180)	(124)	(1,517)
Net cash used in financing activities	665	(14,039)	5,586
Effect of exchange rate changes on cash and cash equivalents	35	111	295
Net increase (decrease) in cash and cash equivalents	682	(6,300)	5,735
Cash and cash equivalents at the beginning of the year	49,628	55,928	417,044
Cash and cash equivalents at the end of the year (Note 11)	¥ 50,311	¥ 49,628	$ 422,779

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

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 golf course management.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statements of changes in net assets, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of net assets, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in net assets" in the current fiscal year.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and investments in affiliates

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

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period. Immaterial difference 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 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 warranty reserve for completed construction is included in other current liabilities.

(g) Accrued employees' retirement benefits

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

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

(h) Accrued retirement benefits to directors and corporate auditors

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

(i) Reserve for restructuring costs

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

The balance of these reserves at March 31, 2007, which were included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets, were ¥9 million (US$76 thousand) and ¥888 million (US$7,459 thousand).

(j) Presentation of net assets

On December 9, 2005, the ASBJ published a new accounting standard for presentation of net assets. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of net assets. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(k) 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.

(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.

(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.

(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 precut 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 custombuilt houses, are recorded when the completed houses are accepted by customers.

(p) Finance leases

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

(q) Bonuses to directors and corporate auditors

On November 29, 2005, the ASBJ replaced an accounting standard for bonuses to directors and corporate auditors. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. Companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The company and certain consolidated subsidiaries adopted this new accounting standard beginning in the year ended March 31, 2007. The effect was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥83 million ($698 thousand).

(r) 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.

(s) 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.

(t) 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.

(u) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2006 have been reclassified to conform to presentation in 2007.

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 ¥119=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2007. 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, 2007 and 2006 were as follows:

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

	Millions of yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 26,053	¥ 41,718	¥ (92)	¥ 67,679
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	¥ 5,290	¥ —	¥ —	¥ 5,290

	Thousands of U.S. dollars			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 266,514	$ 314,258	$ (8,983)	$ 571,789
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	$ 28,548	—	—	$ 28,548

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 year ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds	¥ 1,294	¥ 93	$ 10,873
Gross gains	273	53	2,297
Gross losses	—	—	—

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007			
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due within one year	—	¥ 3,000	—	$ 25,208
Due after one year through five years	—	291	—	2,449
Due after five years through ten years	—	106	—	891
	—	¥ 3,397	—	$ 28,548

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

6. TIMBERLAND

The investment in timberland at March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Standing timber:			
Mature timber	¥ 10,401	¥ 10,723	$ 87,400
Growing timber	340	413	2,857
	10,741	11,136	90,257
Land	477	477	4,006
	¥ 11,217	¥ 11,613	$ 94,263

The timberland accounts at March 31, 2007 and 2006 were reduced by ¥268 million (US $2,255 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, 2007 and 2006 generally represented short-term borrowings which bore interest of 4.76% and 4.37% per annum, respectively. Long-term debt at March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans, principally from banks and insurance companies, due 2008 to 2012 with interest of 6.09%:			
Secured	¥ 3,220	¥ 7,560	$ 27,055
Unsecured	8,004	3,181	67,265
Debenture bonds:			
0.35 basis points	60	120	504
0.64 basis points	100	100	840
	11,384	10,961	95,664
Portion due within one year	2,621	2,113	22,024
	¥ 8,763	¥ 8,848	$ 73,640

The following assets were pledged to secure bank loans and long-term debt at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Receivables-			
Notes and accounts, trade	¥ 457	¥ 523	$ 3,844
Finished goods, logs and lumber	1,407	1,246	11,823
Land	334	269	2,805
Buildings and structures	3,774	3,765	31,713
Machinery and equipment	9,614	8,141	80,790
Timberland	2,000	2,309	16,806
Investment securities	—	3,344	—
Other	—	27	—
	¥ 17,586	¥ 19,624	$ 147,781

The aggregate annual maturities of long-term debt at March 31, 2007 were as follows:

YEARS ENDING MARCH 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 2,621	$ 22,025
2009	5,340	44,871
2010	251	2,106
2011	194	1,629
2012	2,037	17,119
Thereafter	942	7,914
	¥ 11,384	$ 95,664

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 2007 was 40.0%.

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

	2007	2006
Statutory tax rate	—	40.0%
Non-deductible expense for purposes	—	1.5
Per capita portion of Inhabitant Tax	—	1.6
Amortization of consolidation differences	—	1.4
Valuation allowance	—	(14.5)
Other	—	0.9
	—	30.9%

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

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,691	¥ 3,484	$ 31,020
Devaluation of real estate for sale and other assets	4,019	4,160	33,771
Pension and severance costs	4,870	6,293	40,924
Tax loss carryforwards	984	3,186	8,270
Impairment loss	1,397	1,693	11,738
Other	5,289	4,622	44,448
Gross deferred tax assets	20,250	23,438	170,171
Valuation allowance	(8,471)	(8,802)	(71,183)
Total deferred tax assets	11,780	14,636	98,988
Deferred tax liabilities:			
Deferred gains on sales of property	(1,033)	(966)	(8,681)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(13,365)
Unrealized gain on available-for-sale securities	(13,615)	(16,604)	(114,410)
Land revaluation differences	(1,309)	(1,230)	(11,001)
Other	(2,412)	(543)	(20,268)
Gross deferred tax liabilities	(19,959)	(20,933)	(167,725)
Net deferred tax assets	¥ (8,180)	¥ (6,297)	$ (68,737)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2007 and 2006 as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets-			
Deferred income taxes	¥ 6,179	¥ 7,597	$ 51,923
Investment and other assets-			
Deferred income taxes	1,101	1,242	9,248
Current liabilities-			
Other	(59)	(0)	(495)
Long-term liabilities-			
Deferred income taxes	(15,400)	(15,136)	(129,413)
Net deferred tax assets	¥ (8,180)	¥ (6,297)	$ (68,737)

9. OTHER GAINS (LOSSES), NET

Other gains (losses), net, for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Gain on sales of property, plant and equipment	¥ 696	¥ 82	$ 5,848
Gain on sales of investment securities	273	53	2,293
Loss on sales of property, plant and equipment	(168)	(492)	(1,410)
Loss on disposal of property, plant and equipment	(202)	(165)	(1,700)
Other, net	747	939	6,281
	¥ 1,346	¥ 416	$ 11,312

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2007 and 2006 were ¥912 million (US $7,663 thousand) and ¥993 million, respectively.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥ 47,385	¥ 44,720	$ 398,194
Short-term investments	3,000	5,000	25,208
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(74)	(92)	(623)
Cash and cash equivalents	¥ 50,311	¥ 49,628	$ 422,779

12. SHAREHOLDERS' EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporation law of Japan (the "Company Law"), which reformed and replaced part of the Commercial Code of Japan (the "Code").

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

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

The balance of the legal reserve of the Company at March 31, 2007 and 2006, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US$24,009 thousand) and ¥2,857 million, respectively.

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

13. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2007 and 2006 were ¥4,618 million (US $38,810 thousand) and ¥4,366 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Buildings and structures	¥ 11,894	¥ 11,318	$ 99,948
Machinery and equipment	6,334	5,823	53,230
Other	171	188	1,436
Accumulated depreciation	(8,028)	(7,898)	(67,465)
Accumulated impairment loss	(4)	(4)	(35)
	¥ 10,367	¥ 9,427	$ 87,114

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Depreciation	¥ 4,466	¥ 4,224	$ 37,533
Interest expenses	152	142	1,277

Depreciation costs 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 as at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current obligation	¥ 4,091	¥ 3,768	$ 34,378
Long-term obligation	6,380	5,754	53,614
Present value of lease payments	¥ 10,471	¥ 9,522	$ 87,992
Impairment loss on leased assets	¥ 1	¥ 2	$ 9

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2007 and 2006 were ¥118 million (US $989 thousand) and ¥131 million, respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the leased assets is transferred to the lessee and are being accounted for as operating leases at March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Machinery and equipment	¥ 466	¥ 469	$ 3,917
Other	25	36	214
Accumulated depreciation	(235)	(249)	(1,978)
	¥ 256	¥ 257	$ 2,153

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Depreciation	¥ 104	¥ 111	$ 873
Interest expenses	14	16	116

Interest income is calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest receipts over the lease periods, are allocated to each period by the interest method. The present values of future lease receipts for the Companies at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current obligation	¥ 86	¥ 87	$ 721
Long-term obligation	166	167	1,393
Present value of lease receipts	¥ 252	¥ 253	$ 2,114

14. CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2007 and 2006, for loans guaranteed amounted to ¥21,800 million (US $183,189 thousand) and ¥20,880 million, and for notes discounted and endorsed in the ordinary course of business amounted to ¥159 million (US $1,336 thousand) and ¥363 million, respectively.

15. DERIVATIVES AND HEDGING ACTIVITIES

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps, and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

16. EMPLOYEE'S RETIREMENT BENEFITS AND PENSION PLANS

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

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

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

The liability for employee's retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ (49,376)	¥ (48,162)	$ (414,921)
Fair value of plan assets	36,992	32,286	310,860
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (12,383)	¥ (15,875)	$ (104,061)

The components of net periodic benefit costs for the year ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 3,140	¥ 2,930	$ 26,384
Interest cost	863	830	7,255
Expected return on plan assets	(1,156)	(167)	(9,714)
Recognized actuarial loss	(1,899)	(2,973)	(15,958)
Amortization of prior service cost	—	—	—
Net periodic benefit costs	¥ 948	¥ 619	$ 7,967

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

Assumptions used for the year ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	2.0%	1.9%
Expected rate of return on plan assets	3.7%	0.7%
Recognition period of actuarial gain/loss	1year	1year

17. SEGMENT INFORMATION

a) Industry segment information—

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

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

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

Other: leasing, golf course management and other

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

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

	Millions of yen					
YEAR ENDED MARCH 31, 2006	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥ 395,650	¥ 392,131	¥ 3,347	¥ 791,128	¥ —	¥ 791,128
Intersegment transfers	16,532	1,737	10,202	28,471	(28,471)	—
Total	412,182	393,868	13,549	819,600	(28,471)	791,128
Operating expenses	409,376	377,498	12,708	799,582	(23,900)	775,682
Operating income	¥ 2,806	¥ 16,370	¥ 841	¥ 20,018	¥ (4,571)	¥ 15,446
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 237,265	¥ 105,579	¥ 9,139	¥ 351,982	¥ 112,210	¥ 464,193
Depreciation and amortization	2,906	2,336	686	5,928	475	6,403
Capital investment	5,701	3,737	980	10,418	25	10,443

	Thousands of U.S. dollars					
YEAR ENDED MARCH 31, 2007	Timber and Building Materials	Housing	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	$ 4,208,769	$ 3,421,743	$ 30,617	$ 7,661,129	$ —	$ 7,661,129
Intersegment transfers	161,842	4,983	92,049	258,874	(258,874)	—
Total	4,370,611	3,426,726	122,666	7,920,003	(258,874)	7,661,129
Operating expenses	4,303,663	3,287,346	115,078	7,706,087	(216,430)	7,489,657
Operating income	$ 66,948	$ 139,380	$ 7,588	$ 213,916	$ (42,444)	$ 171,472
Identifiable assets, depreciation and capital investment:						
Identifiable assets	$ 2,265,629	$ 951,903	$ 76,197	$ 3,293,729	$ 909,093	$ 4,202,822
Depreciation and amortization	25,236	19,595	6,307	51,138	3,283	54,421
Capital investment	44,381	29,249	6,813	80,443	(4,591)	75,852

Notes: (Year ended March 31, 2007)

As stated in Note 3 (q), the accounting standard for bonuses to directors and corporate auditors (Principle 4 of the Business Accounting Standards-November 29, 2005) can be applied to consolidated financial statements from the fiscal year that ended on or after May 1, 2006. This accounting standard was applied during the fiscal year. The effect of this change on the segment information was to increase operating expenses and to decrease operating income in the “Elimination and/or Corporate” category by ¥83 million ($698 thousand).

b) Geographical segment information—

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

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

YEAR ENDED MARCH 31, 2006	Millions of yen				
	Domestic	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	¥ 773,221	¥ 17,907	¥ 791,128	¥ —	¥ 791,128
Intersegment transfers	2,276	8,005	10,280	(10,280)	—
Total	775,497	25,912	801,409	(10,280)	791,128
Operating expenses	755,595	25,960	781,556	(5,874)	775,682
Operating income	19,901	(48)	19,853	(4,407)	15,446
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 318,973	¥ 38,212	¥ 357,184	¥ 107,008	¥ 464,193

YEAR ENDED MARCH 31, 2007	Thousands of U.S. dollars				
	Domestic	Other	Total	Elimination and / or Corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	$ 7,489,822	$ 171,307	$ 7,661,129	$ —	$ 7,661,129
Intersegment transfers	20,620	83,570	104,190	(104,190)	—
Total	7,510,442	254,877	7,765,319	(104,190)	7,661,129
Operating expenses	7,310,541	242,887	7,553,428	(63,771)	7,489,657
Operating income	$ 199,901	$ 11,990	$ 211,891	$ (40,419)	171,472
Identifiable assets, depreciation and capital investment:					
Identifiable assets	$ 2,981,827	$ 348,063	$ 3,329,890	$ 872,932	$ 4,202,822

Notes: (Year ended March 31, 2007)
As stated in Note 3 (q), the accounting standard for bonuses to directors and corporate auditors (Principle 4 of the Business Accounting Standards-November 29, 2005) can be applied to consolidated financial statements from the fiscal year that ended on or after May 1, 2006. This accounting standard was applied during the current fiscal year. The effect of this change on segment information was to increase operating expenses and to decrease operating income in the "Elimination and/or Corporate" category by ¥83 million ($698 thousand).

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 year ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Numerator for net income per share:			
Net Income	¥ 11,954	¥ 10,842	$ 100,452
Income not available to common stockholders	—	(62)	—
Income available to common stockholders	11,954	10,779	100,452
Denominator for net income per share:			
Weighted average number of shares issued	177,287,939	175,891,228	

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG SHINNIHON

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. (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, 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, 2007 and 2006, 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, 2007 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.

June 22, 2007

Ernst & Young Shin Nihon

ORGANIZATION CHART

- Board of Directors
  - President
    - Executive Committee
    - Board of Executive Officers
    - Tsukuba Research Institute
    - Corporate Planning Division
    - General Administrative Division
    - Personnel Division
    - Finance Division
    - Information Systems Division
    - Customer Service Division
    - Internal Audit Division
    - Intellectual Property Division
    - Forestry and Environment Headquarters
      - Environmental Management Division
      - Forest Management Division
    - Timber and Building Materials Business Headquarters
      - Business Administrative Division
      - Business Development Division
      - Wood Products Trading Division
      - Building Materials Division
      - INOS Group Project Division
      - Development Promotion Division
      - 3 sales divisions, 13 branches 4 sales offices
    - Overseas Business Headquarters
      - Overseas Administrative Division
      - Overseas Development Division
    - Housing Business Headquarters
      - Housing Administrative Division
      - Business Strategy Division
      - Product Development Division
      - Technology Division
      - Production Management Division
      - Building Materials Procurement and Logistics Division
      - Warranty and Customer Information Division
      - Environmental Safety Division
      - Succeed Business Division
      - 64 sales divisions, 319 model homes
    - Real Estate Business Headquarters
      - Business Promotion Division
      - Property Development Business Division
      - Real Estate Solution Business Division
        - 2 sales divisions

(As of April 1, 2007)

OVERSEAS NETWORK

OVERSEAS OFFICES AND SUBSIDIARIES

1. Seattle Office/Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004, U.S.A.
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Fax: 1-604-681-6568
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Fax: 62-21-5202069
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5. Singapore Office/Sumitomo Forestry (Singapore) Ltd.
6 Raffles Quay #14-04/05,
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E-mail: adm@sfspore.com.sg

6. Khabarovsk Office
Room 1007, Hotel Intourist, 2,
Amurskiy Blud, Khabarousk,
68000, Russia
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Fax: 7-4212-41-33-62
E-mail: sfc@sovintel.ru

7. Dalian Office/Sumitomo Forestry (Dalian) Ltd.
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E-mail: dalian@sfc-cn.com

8. Tawau Office
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Jalan Masjid, Tawau, Sabah, Malaysia
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Fax: 60-89-761060

9. Kota Kinabalu Office
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Wisma Perindustrian, Jalan Istiadat,
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Fax: 60-88-268031
E-mail: sfctwu@tm.net.my

10. Miri Office
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Fax: 60-85-413598
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11. Sibu Office
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Fax: 60-84-317635

12. Auckland Office/Sumitomo Forestry NZ Limited
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Centre, Level 11,
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Fax: 64-9-309-0014
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13. Nelson Pine Industries Ltd.
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Nelson, New Zealand
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Fax: 64-3543-8890
E-mail: sfc@nelsonpine.co.nz

14. PT. Kutai Timber Indonesia
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Jakarta 12190, Indonesia
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Fax: 62-21-5200313
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15. Probolinggo Factory
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Pelabuhan, Probolinggo, Jawa
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Fax: 62-335-42-1669
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16. Surabaya Branch
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Bangsa No. 19, Surabaya 60272,
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17. Samarinda Branch
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Samarinda 75123,
Kalimantan Timur, Indonesia
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Fax: 62-541-741967

18. Alpine MDF Industries Pty Ltd.
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VIC 3677, Australia
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Fax: 61-3-5721-3588
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Fax: 1-425-885-0057
E-mail: sfs@sumiforsea.com

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23. Bennett-SFS LLC.
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24. Paragon Wood Product (Dalian) Co., Ltd.
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25. Paragon Wood Product (Shanghai) Co., Ltd.
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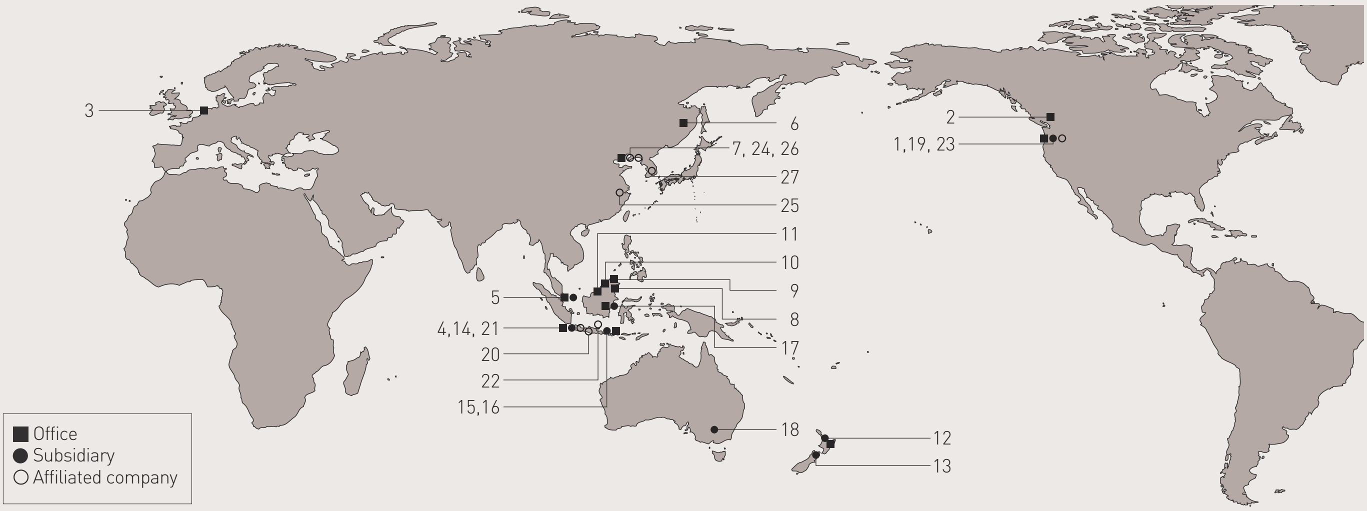
27. Dongwha SFC Housing Co., Ltd.
Dongwha Bldg. 192-4, Nonhyeon-Dong,
Gangnam-Gu, Seoul, 135-010, Korea
Tel: 86-2-3218-8970
Fax: 82-2-3445-2891



(As of September, 2007)

STOCK INFORMATION

Stock Exchange Listings: Tokyo, Osaka

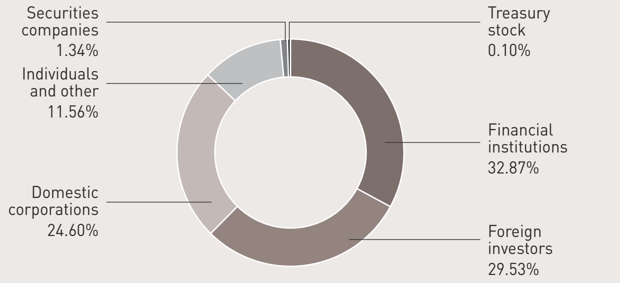
Common Stock Authorized: 400,000,000 shares

Issued: 177,410,239 shares

Number of Shareholders: 11,012

General Meeting of Shareholders: June

Breakdown of Shareholders:



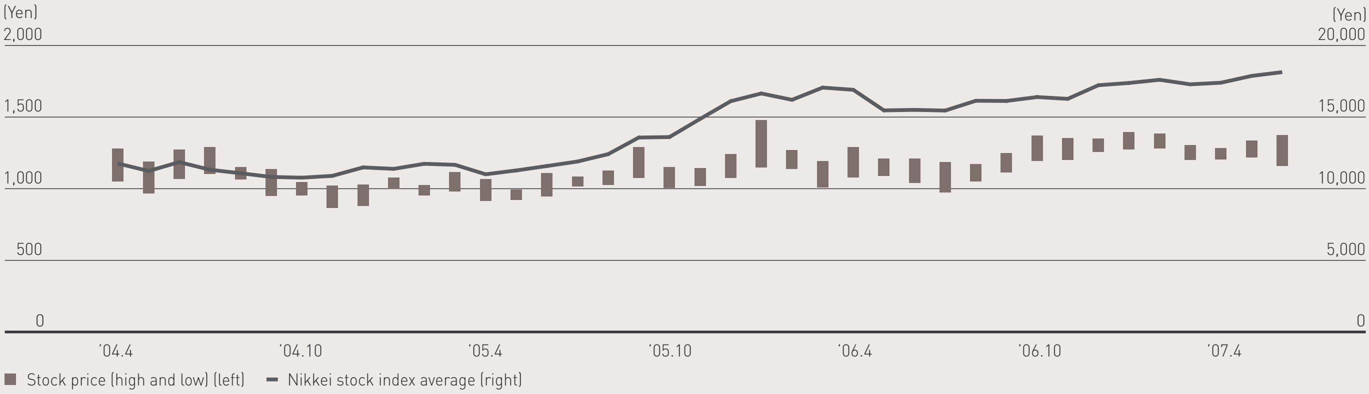
(As of March 31, 2007)

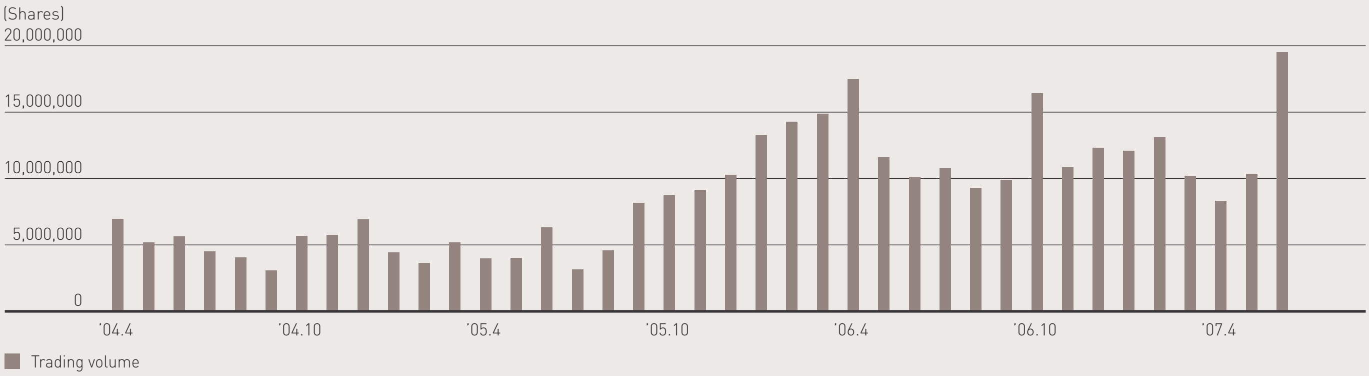
Major Shareholders:

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.70
The Master Trust Bank of Japan, Ltd. (trust account)	8,472	4.78
The Iyo Bank, Ltd.	5,850	3.30
Japan Trustee Service Bank, Ltd. (trust account)	5,401	3.04
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
The Sumitomo Trust and Banking Co., Ltd.	3,408	1.92
Employee's Stock Fund	3,044	1.72

(As of March 31, 2007)

Stock Price and Trading Volume:
(Osaka Securities Exchange)





CORPORATE DATA

Company Name:	Sumitomo Forestry Co., Ltd.
Founded:	1691
Incorporated:	1948
Paid-in Capital:	¥27,672 million
Head Office:	Marunouchi Trust Tower North, 1-8-1, Marunouchi, Chiyoda-ku, Tokyo 100-8270, Japan Tel: 81-3-6730-3500 Fax: 81-3-6730-3504
Consolidated Subsidiaries:	45 (Overseas 13)
Associated Companies:	7 (Overseas 6)
Number of Employees (Consolidated):	12,259
Homepage:	http://sfc.jp/english/
Independent Auditors:	SHIN NIHON & CO.
Transfer Agent and Registrar:	The Sumitomo Trust and Banking Co., Ltd. Stock Transfer Agency Department 1-4-4, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

(As of March 31, 2007)

For further information, please contact:

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Corporate Planning Division
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SUMITOMO FORESTRY CO.,LTD.

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