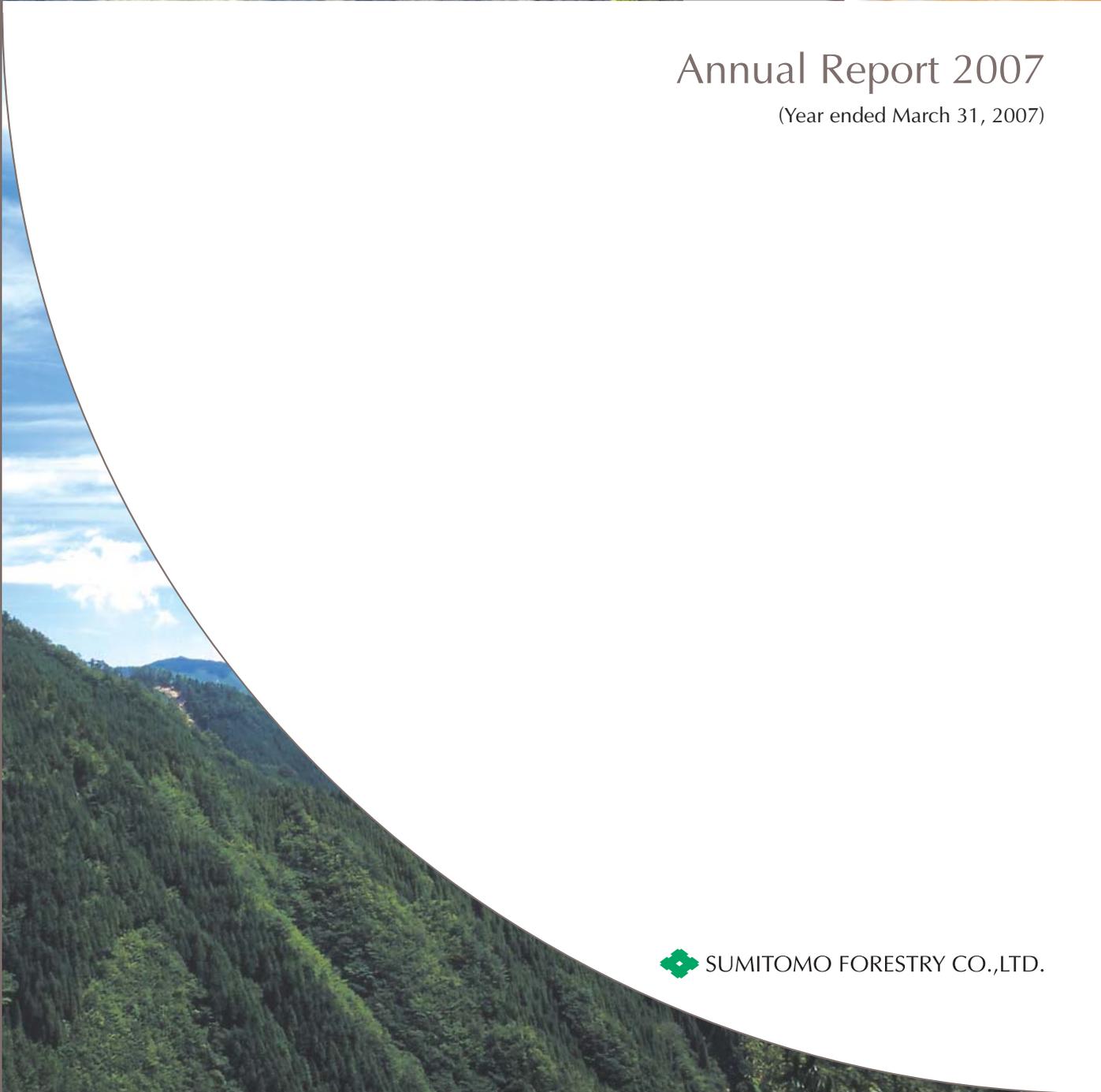


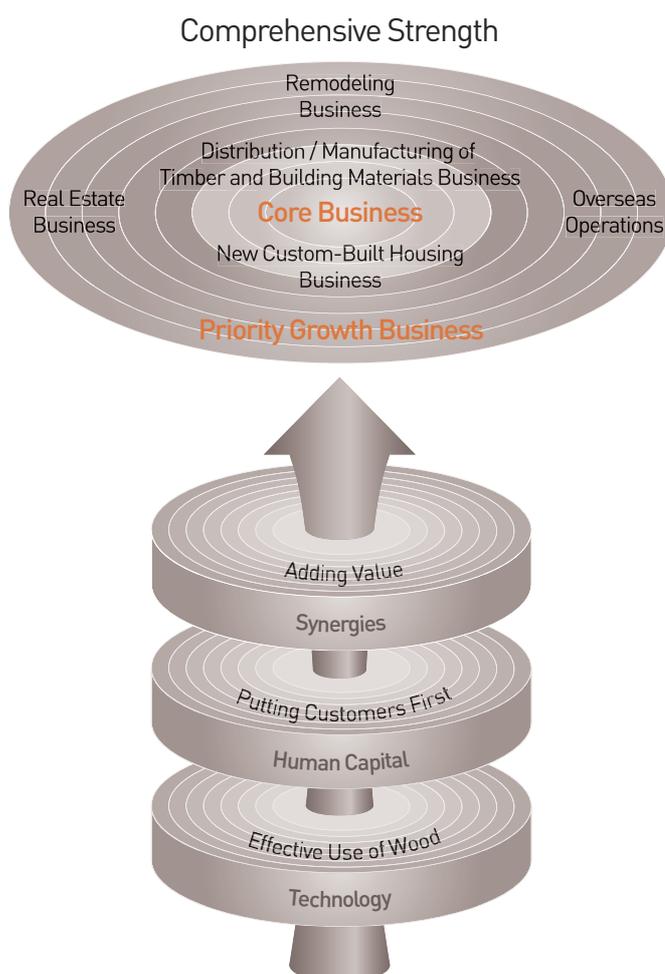
# Annual Report 2007

(Year ended March 31, 2007)



# A TOTAL HOUSING AND WOOD PRODUCTS BUSINESS FOR WOOD-BASED HOUSING ENVIRONMENTS

The Sumitomo group established Sumitomo Forestry in 1691 in conjunction with the opening of the Besshi copper mine to manage the surrounding forestland and the wood material production cycle of timber cultivation, preservation, and harvest. Sumitomo Forestry entered the new custom-built housing business in 1975 and has established its status as the consummate “wood professional” using its knowledge and technology of timber and wood living environments accumulated over more than 300 years. With the forestry business as the foundation, we offer products and services as a total housing and wood products business encompassing timber and building material manufacture and distribution operations, construction and sale of new custom-built housing, remodeling, real estate operations, landscaping and natural environment development, and operations overseas.



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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.

## HOUSING MARKET

Market Trends are Not Promising but there are Many Opportunities for Our Growth

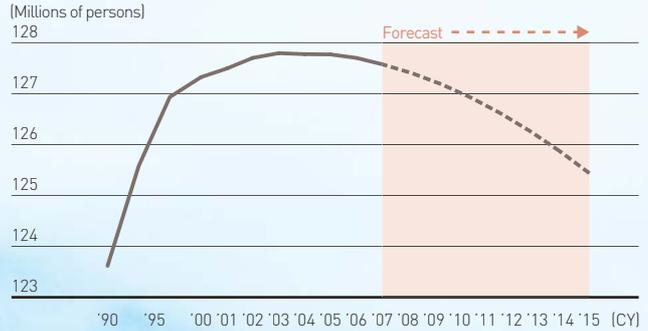
*The Japanese housing market has moved beyond the growth phase and is reaching maturity.*

*While we cannot expect the overall market to expand significantly in the future,  
the Sumitomo Forestry Group sees a market with numerous growth opportunities in segments and  
business areas that it has yet to develop.*

HOUSING MARKET



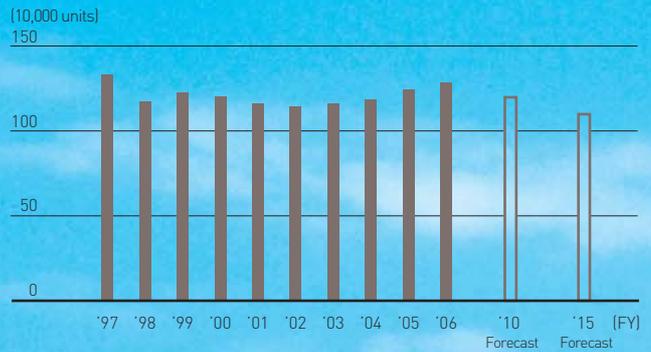
Population Trend



Source: "Population Statistics of Japan 2007", published by the National Institute of Population and Social Security Research

**Japan's Declining Population:** According to the 2005 national census, Japan's total population began declining after reaching a peak of 127.83 million people in December 2004. Changes in lifestyles in favor of marrying later or not marrying have contributed to lowering the birthrate to a current level of about 1.3. This level precludes expectation of a quick recovery in population growth and gives credence to forecasts for the Japanese population to shrink to below 100 million people in 30-40 years.

Housing Starts Demand Forecast



Source: Ministry of Land, Infrastructure and Transport

**Declining New Housing Starts:** Housing purchase demand is currently strong as the present economic environment is supporting improving employment and income levels. However, the market's structural elements of the declining population and growing volume of housing stock indicate that new housing starts will gradually decline over the long term.

Housing Starts Index by Housing Type



**Owner-occupied Housing Starts:** Since land prices were perceived as hitting bottom in 2001 the boom in condominium demand centered on urban redevelopment has been supporting the volume of new housing starts. Our core business segment of new custom-built housing, however, correlates closely with owner-occupied housing starts, and the segment's growth has stalled in recent years.

Japan's declining birthrate and growing proportion of elderly people has combined to create a period of decreasing population.

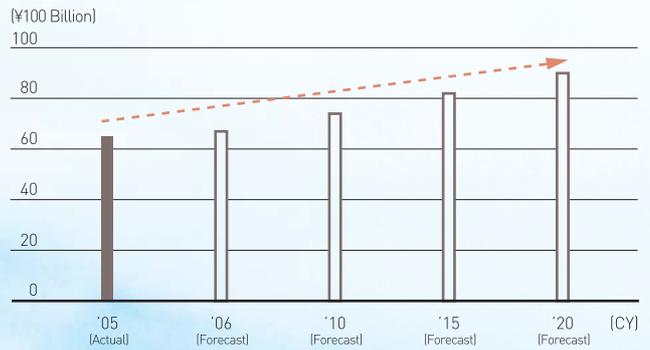
These conditions are producing an inevitable decline in the number of the main group of first-time housing buyers - young buyers - and we anticipate a long-term declining trend of new construction housing demand (flow) down to a lower sustainable level.

Short-term market trends present a contrast of declining demand for owner-occupied housing alongside rapidly growing demand for built-for-sale housing based on a sense that land prices are bottoming and fueled by urban redevelopment.

NOT A PROMISING MARKET  
FOR MANY  
HOUSING COMPANIES



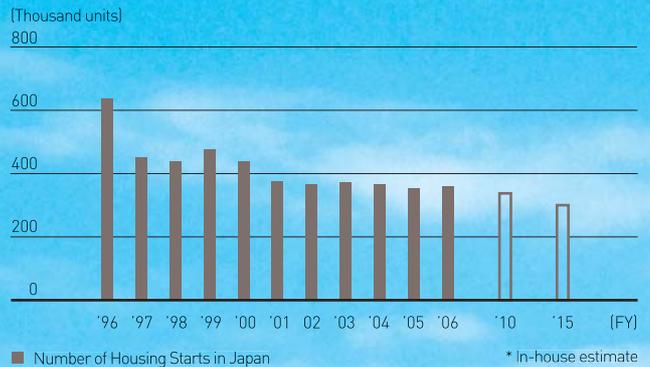
### New Trends in the Remodeling Market



Source: "House Renovation Market 2006", published by Yano Research Institute Ltd.

**Scale of the Remodeling Market:** While the Japanese population started declining at the end of 2004, the volume of housing stock is expected to continue to grow. In addition, demand for remodeling construction is expected to grow. The average lifespan of Japanese homes is estimated to generally be 30 years, which means that current homeowners of the large number of houses built in the 1970s can be expected to generate remodeling demand for earthquake resistance upgrades, to replace major equipment, and also to raise the asset value of their homes.

### Trends in Owner-occupied Housing



**Owner-occupied Housing Demand:** Residential construction starts are expected to decline by about 10% in the next few years. While this will undoubtedly impact the majority of home builders, we believe our company will be relatively unaffected by this trend because of our focus on high-quality housing products that we believe will be well suited to the growing demand for higher quality residential housing. In addition, we are moving into a period when a large volume of the baby boomer generation will be reaching retirement age, and we expect this group to expand demand for personalized homes and relocation-related demand as they seek to establish lifestyles suited to their retirement activities.

### Main Points of the Basic Housing Act

	Current	Planned
Housing Stock Meeting New Earthquake Resistance Requirements	75% (2003)	90% (2015)
Housing Stock with Energy Efficiency Measures	18% (2003)	40% (2015)
New Construction with Housing Performance Disclosure	16% (2005)	50% (2010)

**The Basic Housing Plan Outline:** The government's Basic Housing Plan extends from fiscal years 2006 to 2015 and emphasizes a shift in government housing policy from quantity to quality. The plan focuses on such items as improving housing safety by raising earthquake resistance and improving energy efficiency in anticipation of tighter efficiency regulations in the future.

The Japanese government has responded to the changing environment of the housing market, which includes diversifying and more sophisticated residence needs, the new society structure of shrinking population and household numbers, and tightening environmental regulations, by adopting the Basic Housing Plan that shifts the emphasis of the basic housing policy from quantity to quality.

The policy is essentially intended to help realize a society in which the general public can truly feel and reflect the nation's affluence.

The maturing housing market means that the housing construction policy no longer needs to support construction flow, and can now focus on qualitative improvement of living standards, including the residential environment, and the creation of a stock of quality housing for future generations.

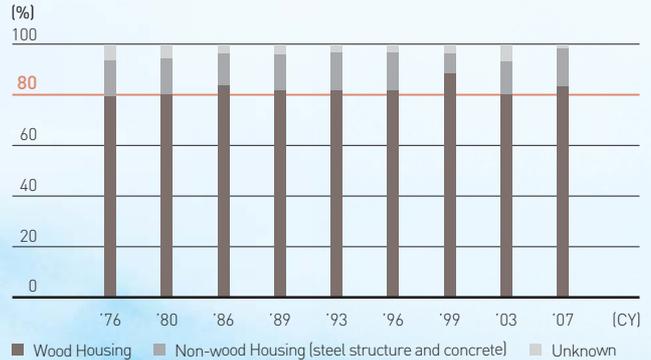
These changes in the housing business environment represent a market shift toward the product quality that Sumitomo Forestry has been developing and opens doors for new business opportunities and growth for the company.

## BUT A PROMISING MARKET FOR US





Wood or Non-wood for Future Living?

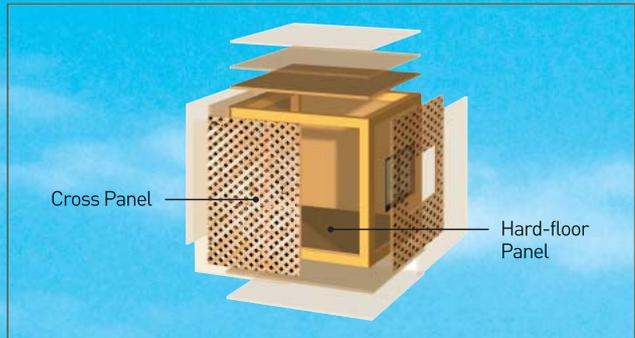


Source: Cabinet Office, Government of Japan

**Preference for Wooden Housing:** A survey by the Cabinet Office of the Government of Japan found that over 80% of Japanese people desire wooden housing, a sign of strong support for wooden housing despite the recent boom in condominium demand. Sumitomo Forestry’s focus on supplying wood materials and quality products has established us as Japan’s leading\* supplier of wooden custom-built homes.

\* “Analysis of Housing Manufacturer Competitiveness, 2007” published by Jutaku Sangyo Kenkyujo Co., Ltd.

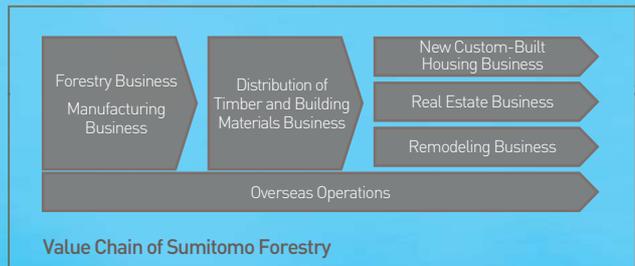
Sumitomo Forestry’s Multi-balance Construction



**Sumitomo Forestry’s “Wooden Homes”:** The in-house developed multi-balance construction method used to construct our “MyForest” series homes emphasizes our expertise in drawing out the unique features of wood and enables us to create wooden homes of unequalled durability and living comfort. In addition to the high quality of our products, we also offer extensive support services, such as the “60-year Support System” to assist customers in maintaining and improving the quality of their homes. These and other activities are designed to support and promote each customer in realizing his or her ideal home.

\* **Multi-balance Construction:** An integrated system of posts, beams, and panels prevents excessive stress from accumulating at joints and limits 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.

Sumitomo Forestry’s Comprehensive Strength



**Comprehensive Strength:** The Sumitomo Forestry Group provides wood and housing lifestyle products at every stage of the process, from forest management to timber and building material manufacture and distribution, to new custom-built housing and remodeling. The comprehensive strength of the Sumitomo Forestry Group sets us apart from competitors and provides a foundation for developing the growth potential of the group. Our intracompany business activities across all stages of the operating chain are key components for raising the group’s efficiency in business development and realizing other synergy advantages.

The all-encompassing reach of our value chain from upstream to downstream, beginning with timber cultivation through housing material production and distribution to housing construction, places the Sumitomo Forestry Group in a unique position in the housing industry.

This comprehensive strength of the Group, our emphasis on product quality, and our customer-first ethic to make us the industry's leading supplier of wooden custom-built homes.

We plan to optimize our management resources, including the technology and manpower capacity that are the primary sources for the Group's competitiveness, to continue expanding our global operations and generate additional synergies among our businesses.

This will further enhance our overall strength and establish sustainable business growth into the future.

## OUR ADVANTAGE IN THE MARKET



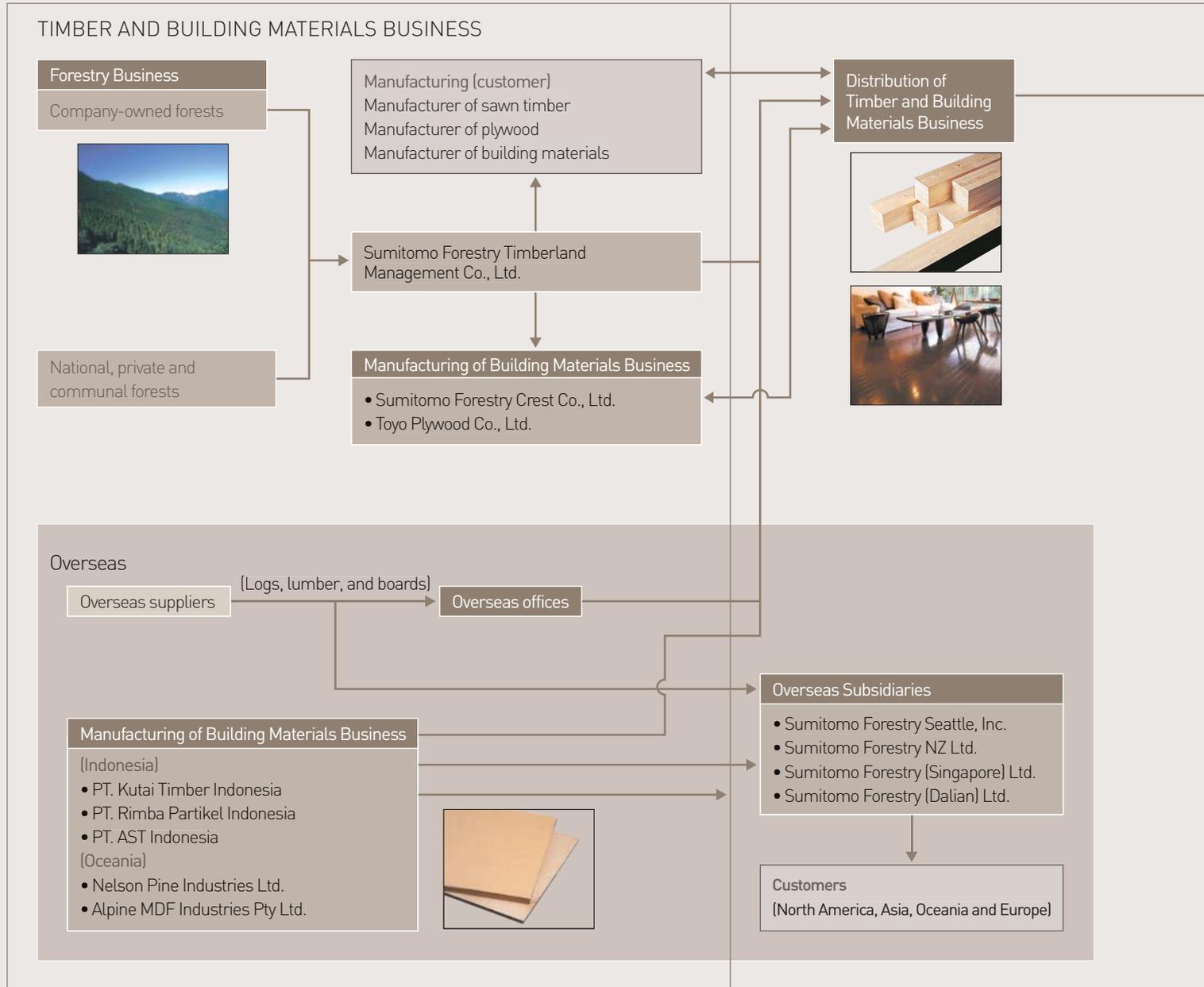
# OUR COMPREHENSIVE STRENGTH — VALUE CHAIN —

## BUSINESS STRUCTURE OF SUMITOMO FORESTRY

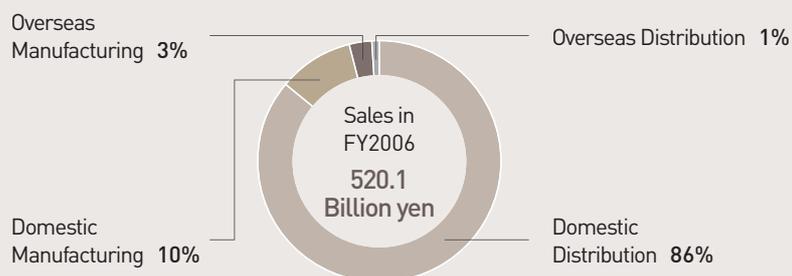
Based on our expertise in the profession related to the gift of nature “wood” and to providing customers with rich “living”, The Sumitomo Forestry Group is building a value chain that can meet all needs.

### UPSTREAM: Manufacturing and Supply of Materials

### MIDDLESTREAM: Distribution and Processing

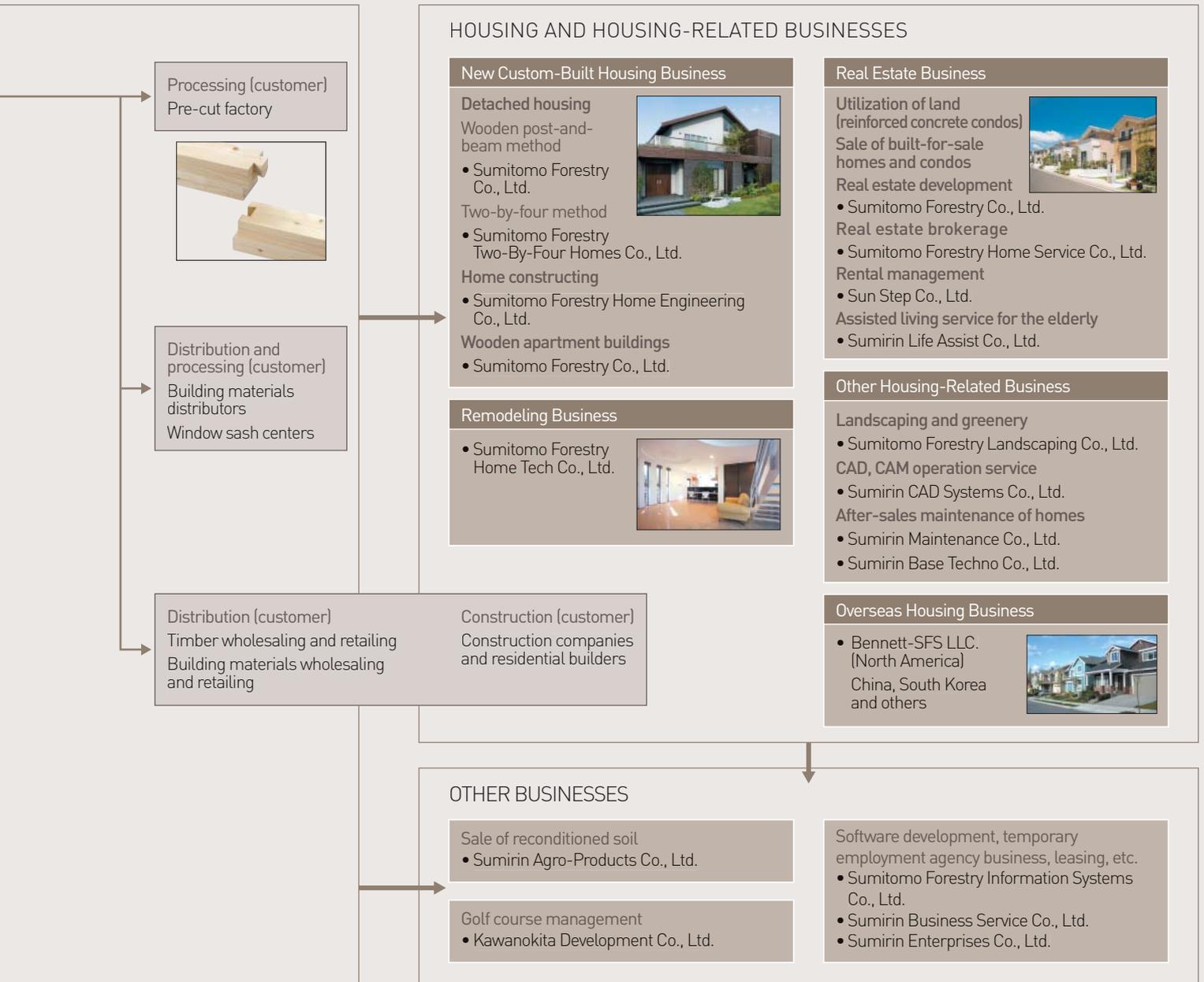


### Sales Share of Timber and Building Materials Business

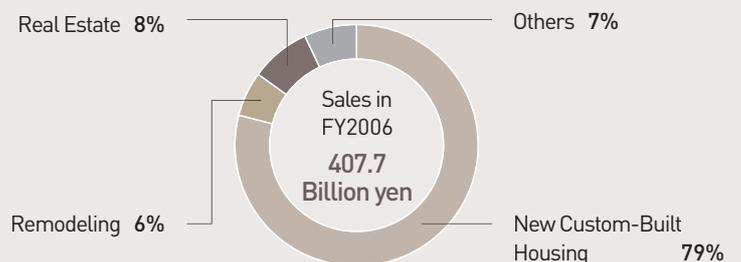


Note: Figures for each segment include inter-segment transactions.

DOWNSTREAM: Consumer Business

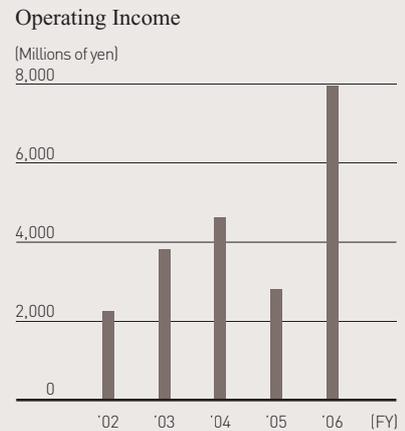
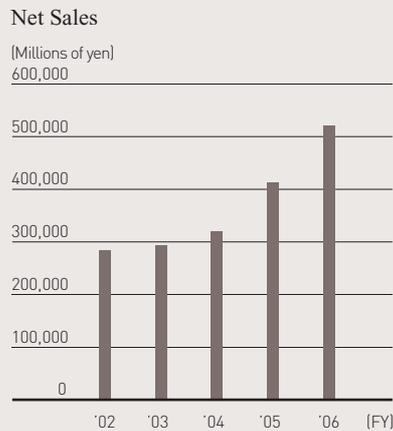
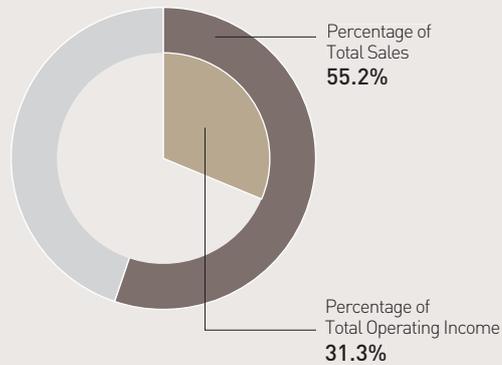


Sales Share of Housing and Housing-Related Businesses

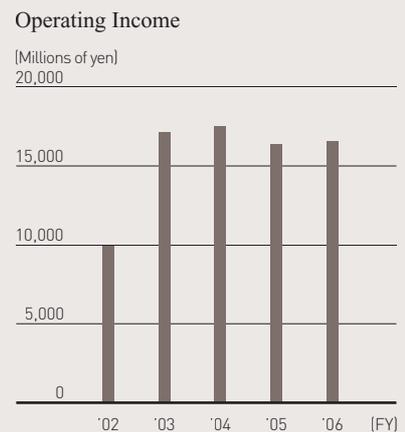
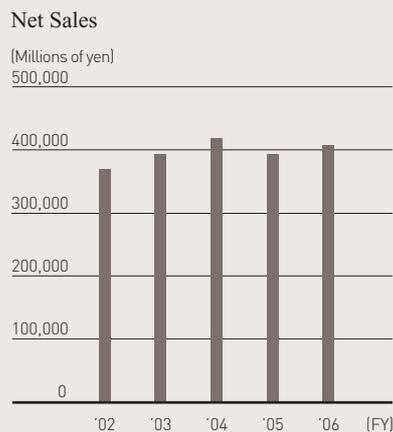
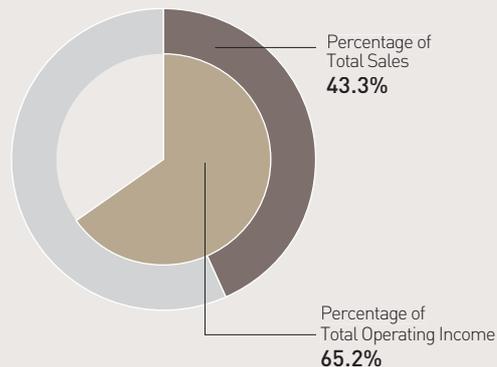


# AT A GLANCE

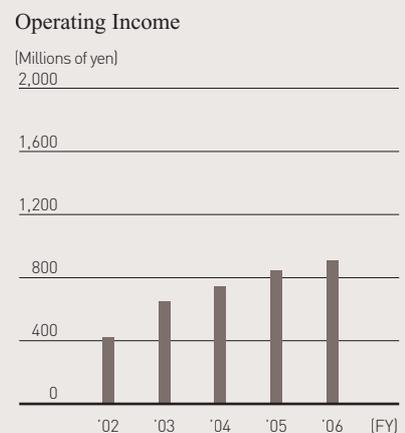
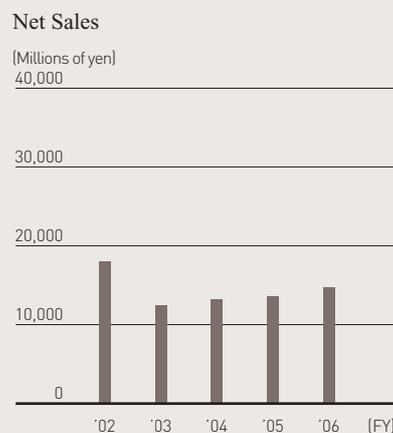
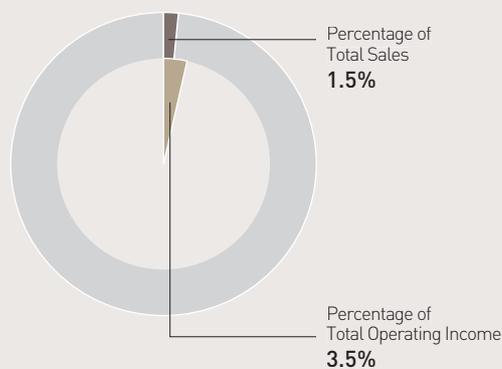
## TIMBER AND BUILDING MATERIALS BUSINESS



## HOUSING AND HOUSING-RELATED BUSINESSES



## OTHER BUSINESSES



Notes: 1. Business segment percentages include fiscal 2006 intersegment transactions.  
2. Business segment sales and operating income figures include intersegment transactions.

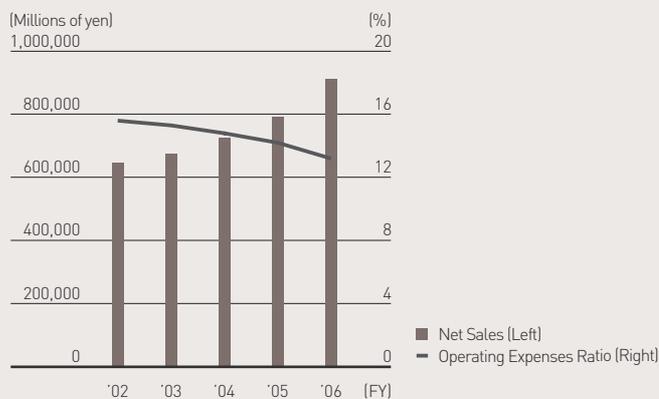
Forestry Business (Domestic and Overseas Operations)	The Forestry Business efficiently manages some 40,000 hectares of company-owned forestland utilizing cyclical forest management based on a principle of “sustainable forestry” through a continuous cycle of harvesting and planting. Our overseas operations likewise follow management principles centered on planted timber and the promotion of sustainable timber resources.
Manufacturing of Building Materials Business (Domestic and Overseas Operations)	The Manufacturing of Building Materials Business produces and processes a variety of building components focusing on wooden materials, such as boards and interior materials, and storage units. It does so using an integrated production system, extending from the selection of timber to the processing of products. Overseas operations manufacture and process panels such as medium density fiberboard (MDF), plywood, particleboard, and other wooden board materials from timber.
Distribution of Timber and Building Materials Business (Domestic and Overseas Operations)	The Distribution of Timber and Building Materials Business’s worldwide distribution network has made it Japan’s leading trader of timber and building materials in terms of trading volume. The overseas business is expanding its operations in Asia in anticipation of a growing market in the region for timber and building materials.
New Custom-Built Housing Business (Detached Housing and Collective Housing)	The New Custom-Built Housing Business’s dedicated team system for marketing, design, production and interior refinement for each house provides a full-fledged custom-built house taking full advantage of the appeal of wooden materials and answering specific customer requirements.
Remodeling Business	Sumitomo Forestry Home Tech Co., Ltd. applies its original in-house developed technology, along with technology honed in our Custom-Built Housing Business, to transform buildings and other structures into fresh and functional living spaces.
Real Estate Business	The new Real Estate Business Division, created in April 2007, is focusing on five core operations: effective utilization of real estate holdings, real estate development, built-for-sale housing, real estate sales and brokerage, and real estate management. The new division applies its original planning capabilities, an extensive information network accumulated and cultivated over many years, and integrated activities with other business divisions with the objective of developing quality housing and facilities that meet the needs of society.
Overseas Housing Business	The Overseas Housing Business provides high-quality wooden structure homes featuring the best characteristics of Japanese home designs adapted to local sensibilities. Currently focused on the Seattle region of the United States, operations are also being developed in China, Korea, and other regions.
Other Housing-Related Businesses	Other operations include general exterior landscaping and urban environment improvement businesses, which support elegant housing environments using abundant natural greenery, flowers, and other outdoor ornamentation for terraces, gardens and other housing features.
Lifestyle-Related Business	The Lifestyle-Related Business offers a diverse range of services, including the production and sales of farm and garden materials, insurance brokerage, and information systems and leasing services, which contribute to secure and fulfilling lives of our customers and society as a whole.

# FINANCIAL HIGHLIGHTS

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

	Millions of yen					Thousands of U.S. dollars*1
	2007	2006	2005	2004	2003	2007
<b>Operating Results:</b>						
Net sales and contract revenues	¥ 911,674	¥ 791,128	¥ 723,193	¥ 673,779	¥ 645,100	\$ 7,661,129
Gross profit	141,117	127,853	125,582	120,778	109,631	1,185,854
Selling, general and administrative expenses (SG&A expenses)	120,711	112,407	107,116	103,201	100,858	1,014,382
Capital investment	9,026	10,443	9,237	6,392	5,123	75,852
Operating income	20,405	15,446	18,466	17,577	8,772	171,472
Recurring income*2	21,259	16,800	18,692	17,074	9,721	178,649
Net income (loss)	11,954	10,842	8,014	9,870	(15,439)	100,452
<b>Financial Position:</b>						
Total assets	500,136	464,193	370,684	369,755	357,322	4,202,822
Interest-bearing debt	25,739	22,067	15,580	19,929	16,497	216,297
Total net assets*3	188,855	175,206	152,500	146,269	129,727	1,587,013
<b>Cash Flows:</b>						
Cash flows from operating activities	7,084	16,626	6,685	25,962	19,734	59,533
Cash flows from investment activities	(7,102)	(8,998)	(12,895)	(7,646)	2,026	(59,679)
Cash flows from financing activities	665	(14,039)	(7,087)	(735)	(8,171)	5,586
<b>Per Share Data:</b>						
Net income (loss)	¥ 67.43	¥ 61.28	¥ 45.28	¥ 55.81	¥ (87.53)	\$ 0.57
Net assets	1,059.20	996.03	866.47	830.50	736.42	8.90
Cash dividends	15.00	13.00	13.00	13.00	10.00	0.13

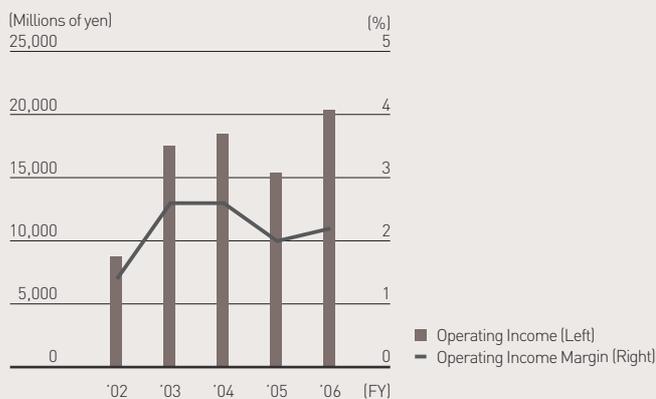
Net Sales and Operating Expenses Ratio



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

**Net Sales:** Net sales for the Timber and Building Materials Business increased 26.2% year on year on higher product prices and increased business volume along with full-year contributions from newly incorporated subsidiaries acquired in the previous year. Net sales for the Housing and Housing-Related Businesses rose 3.5%, primarily on high-unit prices for completed units.

Operating Income and Operating Income Margin



**Operating Income and Operating Income Margin:** Operating income increased 32.1% year on year and the operating income margin rose 0.2 percentage points as market conditions supported substantial earnings growth for the Timber and Building Materials segment.

	%				
	2007	2006	2005	2004	2003
<b>Financial Ratios:</b>					
Operating income margin	2.2	2.0	2.6	2.6	1.4
Return on assets (ROA)**	4.4	4.0	5.0	4.7	2.7
Return on equity (ROE)**	6.6	6.6	5.4	7.2	(11.1)
Equity ratio	37.5	37.7	41.1	39.6	36.3
Interest-bearing debt ratio*5	12.1	11.2	9.3	12.0	11.3
<b>State of Orders (on a unit basis):</b>					
Custom-built detached housing	9,751	9,251	10,076	10,529	10,538
Collective housing	1,455	1,288	1,776	1,655	1,227
<b>State of Sales (on a unit basis):</b>					
Detached housing	9,645	9,807	10,319	10,542	10,552
Collective housing	1,445	1,082	1,571	1,266	1,220
Number of employees	12,259	11,997	10,477	10,418	10,378
<b>Reference Market Data:</b>					
New housing starts (nationwide)	1,285,246	1,249,366	1,193,038	1,173,649	1,145,553
New housing starts (Tokyo metropolitan district)	431,200	432,005	419,088	422,750	393,296
Owner-occupied housing starts (nationwide)	355,700	352,577	367,233	373,015	365,507

Notes: 1. Japanese yen amounts have been translated into U.S. dollar amounts, for the reader's convenience only, at the rate of ¥119=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2007.

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 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.

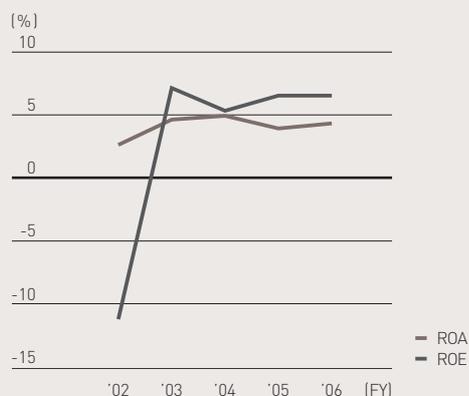
4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income (loss) / Shareholders' equity

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

#### ROA and ROE



#### Total Assets and Equity Ratio



**ROA and ROE:** Return on Assets increased 0.4 percentage points from the previous year on a 7.7% rise in total assets and 26.5% growth in recurring income. Return on Equity held steady at 6.6% as net income increased 10.3% and shareholder's equity rose 7.1%.

**Total Assets and Equity Ratio:** Total assets rose by ¥35.9 billion on an increase in notes and accounts receivable accompanying the rise in sales and expanded acquisitions of real estate for resale. The Equity Ratio declined by 0.2 percentage points.

## TO OUR STAKEHOLDERS

The company achieved significant increases in sales and profits in all segments in fiscal 2006. The Timber and Building Materials Business continued to expand business in Japan and overseas, which along with improving business conditions helped raise segment operating income by roughly triple the previous year result. The promotion of high value-added housing in the Housing Business led to a large increase in earnings for the overall company. In looking toward the future and in anticipation of the ongoing evolution of the business environment, during the year we launched the 10-year long-term management plan “Project SPEED” to guide our growth to the year 2016.

### REVIEW OF FISCAL 2006 RESULTS

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#### Owner-Occupied Housing Starts Rose for the First Time in Three Years

In the housing industry, rising land prices in metropolitan regions and expectations of higher housing loan interest rates spurred first-time homebuyer demand as overall new housing starts expanded 2.9% year on year to 1.28 million units. Among the most dynamic trends during the year was the 3.3% rise of built-for-sale houses as the condominium boom continued and the 3.9% growth of rental housing supported by the increase in real estate funds. Another important trend during the year was the first improvement in three years in Japan’s owner-occupied housing starts, highly related to our business, which rose 0.9% year on year to 350,000 units.

In the timber and building materials sector, the rapidly expanding economies of emerging nations are generating increasing demand for timber and tightening the supply and demand balance in the global market. In Japan, the increasing demand for timber paralleling the rise in new housing starts is stimulating the domestic market, including rises in product prices.

#### Profits Accelerated on Brisk Timber and Building Materials Business

In this overall environment, Sumitomo Forestry Group net sales and contract revenues increased ¥120.5 billion, or 15.2%, year on year to ¥911.6 billion. A substantial ¥72.0 billion of this growth is attributable to Toyo Plywood Co., Ltd., Ataka Kenzai Co., Ltd., and other recently consolidated companies in the Timber and Building Materials Business that provided a full-year of earnings contributions.

Operating income rose 32.1% year on year to ¥20.4 billion and recurring income rose 26.5% year on year to ¥21.2 billion. Profits were boosted by higher product prices in the Timber and Building Materials Business as well as the effects of the promotion of high value-added housing in the Housing Business. Net income in fiscal 2006 increased 10.3% year on year to ¥11.9 billion as taxes settled back to their normal level.



Ryu Yano  
President / Director

## Overview of Segment Results

### *Timber and Building Materials Business*

*Sales +26.2%, Operating Income +183.9%*

Net sales in the Timber and Building Materials segment grew 26.2% year on year to ¥520.1 billion and operating income rose 183.9% to ¥7.9 billion. Domestic Distribution sales volume expanded on the merger with Ataka Kenzai Co., Ltd. and from stronger collaborative ties with our business partners. The global market for timber was very active during the year and the tight supply and demand balance around the world supported higher prices for timber and wood panels, which pushed profits higher. The Manufacturing of Building Materials Business, primarily wood panels, posted substantial profit growth on steady production activity and the higher prices.

### *Housing and Housing-Related Businesses*

*Sales +3.5%, Operating Income +1.3%*

Net sales and contract revenues in the Housing and Housing-Related segment rose 3.5% year on year to ¥407.7 billion and operating income grew 1.3% year on year to ¥16.5 billion. Adjusted to reflect an actuarial difference from a revision to retirement benefit accounting methods, the growth in operating income was 9.3% year on year.

Promoting the innovative “passion for wood” concept together with design of the parent company’s high value added “MyForest” homes as marketing strategies in the Custom-Built Housing segment lead to total segment sales for completed construction of ¥285.2 billion, a 1.8% rise year on year, as rises in selling prices overcame a small drop in unit sales. In addition, our efforts in leading contracts into project starts and the marketing system centered on model showrooms designed meticulously to respond to the specific needs of each community contributed to an increase in orders of 5.5% year on year to 9,376 units. An increase in the percentage of orders for mid-level and higher priced homes raised the average order value per unit by 2.2% year on year to ¥31.6 million.

The Collective Housing Business introduced strategic products and stepped up marketing of wood apartment buildings, which generated 13.0% year on year growth in orders to 1,455 units and a 7.2% increase in order value to ¥14.7 billion. The Remodeling

Business posted a 2.4% year on year growth in orders to 8,670 units.

## RETURNS TO STOCKHOLDERS

### Dividend Raised ¥2 and

### Dividend Payout Ratio Elevated to 22%

Based on these performance results, we raised the annual dividend per share by ¥2 for fiscal 2006 to ¥15, representing a consolidated dividend payout ratio of 22.2%. We believe our foremost priorities at this point are to expand business through aggressive investment and create an operating structure that is flexible and resilient to changes in the business environment.

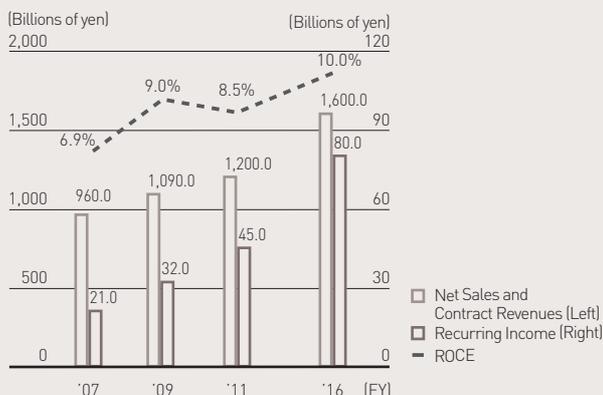
We regard providing our shareholders with stable and consistent dividends to be an important management responsibility and set dividends rate at a level that we believe represents a balanced consideration with our management base, financial standing, investment plans, and other factors. When profit levels for a fiscal year exceed our initial expectations, our policy is to review dividends and proactively raise them accordingly.

## OUTLOOK FOR FISCAL 2007

### An Expanding Housing Business and Higher Sales and Profits (excluding the effect of actuarial differences)

In fiscal year 2007, we anticipate nationwide owner-occupied housing starts reaching 360,000 units, representing 1.2% year on year growth, supported primarily by improving employment conditions. We also expect demand for timber and building materials to remain steady even as market conditions settle from the previous year’s activity. Based on these conditions, we forecast fiscal 2007 net sales and contract revenues rising 5.3% year on year to ¥960.0 billion, operating income declining 2.0% to ¥20.0 billion, recurring income declining 1.2% to ¥21.0 billion, and net income growing 0.4% to ¥12.0 billion. When factoring out the addition of ¥1.9 billion to fiscal 2006 profits attributable to the actuarial difference from the retirement benefit accounting, we anticipate operating income growth of ¥1.5 billion and recurring income growth of ¥1.6 billion.

Targets for Net Sales and Contract Revenues, Recurring Income and ROCE



### Forecast by Segment

We aim to increase Timber and Building Materials Business sales 3.8% year on year to ¥540.0 billion and raise operating income 0.4% year on year to ¥8.0 billion in fiscal 2007. In the Distribution Business, profitability in the plywood business will fall, but we anticipate expanding sales of medium-density fiberboard (MDF) and other products along with growing profitability in overseas manufacturing operations to enable the expansion in operating income.

In the Housing and Housing-Related Businesses, while we anticipate rising materials prices to impact profits, the order backlog at the beginning of the year for custom-built detached houses was quantitatively higher than the previous year in terms of both value and the number of units. We forecast Housing and Housing-Related Businesses sales growing 7.9% year on year to ¥440.0 billion and operating income rising 2.5% to ¥17.0 billion.

## 10-YEAR LONG-TERM MANAGEMENT PLAN

“Project SPEED” (see the feature on page 18 for additional details)

### Changing Consciousness and Adopting an Aggressive Investment Stance to Achieve our 10-Year Vision

Looking back over the past decade, nationwide housing starts fell in a severe operating environment, but reform of the operating structure (fiscal 2002-2004) led to a recovery in profitability. Even though changes in the business environment such as diversifying lifestyles and the scarcity of timber resources will create new business opportunities going forward, with the population decline and our long term forecast for housing starts as assumptions we must revamp our business model.

With each employee playing a key role in actively and attentively advancing the development of the company, we have created a long-

term management plan with a clear roadmap to transform the Group over the next 10 years. We intend to immediately begin aggressive investment as called for under the plan to establish and develop new profit creating businesses. As a 10 year vision, maximizing our strength in providing housing related services both up and downstream we will advance global development related to “wood and housing”, and aim to be a business group with diverse revenue sources.

To undertake this business reform and bring about new growth, we will aggressively advance investment and introduce a new system to manage this investment. Specifically, we plan to implement a regimented capital allocation system utilizing return on capital employed (ROCE)\* as a measure of the profitability of the investment conducted in each business segment. We will set time-specific business targets as well as enforce strict criteria for withdrawal from unproductive businesses.

\* ROCE = business income / (interest-bearing debt + shareholder's equity);  
business income = (operating income + interest, dividends and other income) x (1 - effective tax rate)

### 10-Year Target: Sales of ¥1,600 Billion, Recurring Income of ¥80 Billion

Fiscal 2007 is the first year of the 10-year plan to reach targets in fiscal 2016 of sales of ¥1,600 Billion, recurring income of ¥80 Billion, and a 10% ROCE. The New Custom-Built Housing Business with its leading brand of new wood custom-built housing and the Distribution and Manufacturing of Timber and Building Materials Business with its market leading share of the domestic market have been designated as the core businesses that will be essential to realizing the growth and profitability required to reach these targets. Also, with our technological capabilities in providing high quality wood products, gained over many years, and staff that conscientiously places top priority on the customer as key management resources, we will expand the business scope of the Overseas, Real Estate, and Remodeling Businesses.

## MEDIUM-TERM MANAGEMENT PLAN (FISCAL 2009 TARGETS)

### Recurring Income of ¥32.0 Billion on Aggressive Investment in the Real Estate and Overseas Operations

We have set three-year medium-term management targets as the first passage point for our long-term objective. For the three years to the end in fiscal 2009, our earning structure, which relies on the Housing Business for the majority of revenues, will not change significantly, but we will invest aggressively in key growth businesses to build a foundation to support future growth. Our targets for fiscal 2009 are sales of ¥1,090.0 billion, recurring income of ¥32.0 billion, and 9.0% ROCE.

## Income Plan by Business Segment

(Billions of yen)

		Net Sales and Contract Revenues				Recurring Income			
		FY2009 Plan	FY2006 Actual	Change	%	FY2009 Plan	FY2006 Actual	Change	%
Core Business	Distribution and Manufacturing of Timber and Building Materials Business	620.0	545.8	+74.2	+13.6%	6.8	6.5	+0.2	+3.4%
	New Custom-Built Housing Business	520.0	431.4	+88.6	+20.5%	24.2	16.7	+7.5	+45.3%
Priority Growth Business	Overseas Operations	49.0	32.9	+16.1	+48.8%	3.8	0.6	+3.2	+517.4%
	Real Estate Business	74.0	44.4	+29.6	+66.8%	2.2	0.8	+1.4	+178.6%
	Remodeling Business	33.0	25.8	+7.2	+27.7%	0.8	0.3	+0.5	+162.3%
	Elimination and/or Corporate	(206.0)	(168.7)	(37.3)	—	(5.8)	(3.7)	(2.1)	—
	Total	1,090.0	911.7	+178.3	+19.6%	32.0	21.3	+10.7	+50.5%

## Raise Core Business Recurring Income 33% to ¥31.0 Billion

We aim to raise recurring income in our core businesses by 33.6% from the fiscal 2006 level to ¥31.0 billion in fiscal 2009. In the Timber and Building Materials Business, while we anticipate temporary supply and demand imbalances to affect profit levels, we plan to strengthen our partnerships with leading distribution and construction companies to further substantiate our lead in the industry. This will expand our network and lead to more diverse revenue sources. Also, the new construction segment of the New Custom-Built Housing Business will focus on the mid and high-end housing markets in metropolitan areas and major regional cities. In fiscal 2009, the segment is aiming to attain growth in housing orders, including those for two-by-four constructed housing, of 14.9% over the fiscal 2006 level to 11,200 units and annual construction completions up 13.7% to 10,900 units. The segment is also implementing strategies to improve operating effectiveness and minimize costs, such as by leveling off the seasonal fluctuations in the numbers of construction starts and completions, to enhance its business competitiveness.

## Raise Recurring Income in the Priority Growth Businesses 400% to ¥6.8 Billion

The medium-term management plan sets a target of expanding recurring income in the priority growth business by 400% over fiscal 2006 to ¥6.8 billion. In our Overseas Operations, we aim to leverage our information network for market analysis and experience in each country to rapidly develop promising projects for commercialization. The Real Estate Business will focus on acquiring real estate and developing a wide array of solutions to create new value and meet the emerging

needs of Japan's changing society, including the aging population. The Remodeling Business will expand its scope beyond home maintenance and concentrate its wooden housing technology and experience on products designed to raise the asset value of homes.

## IN CLOSING

The foundation for our long-term management plan is the clear management philosophy of the Sumitomo Forestry Group: using the reusable resource wood we will provide all services related to housing lifestyles and be a truly useful company to society. Through these efforts we will draw out our strengths and offer high value products and services for our customers. In addition, going forward we will build sustainable relationships with our stakeholders. We aim to be a Group that provides "quality of our company" on par with leading companies in the world, raising not only economic value but also societal and environmental value.

As we set out on this path, I ask for your continued support and counsel.

August 2007

Ryu Yano

President / Director

