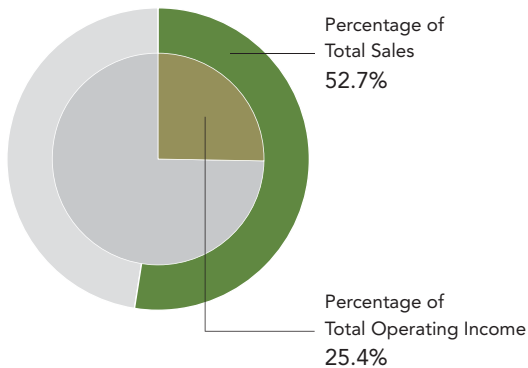
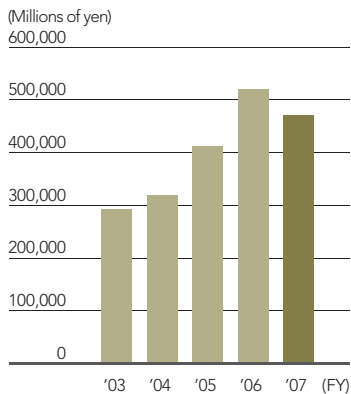


# AT A GLANCE

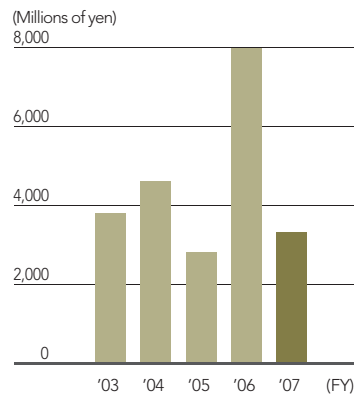
## TIMBER AND BUILDING MATERIALS BUSINESS



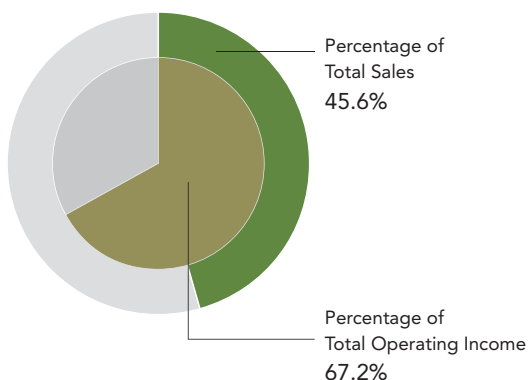
### Net Sales



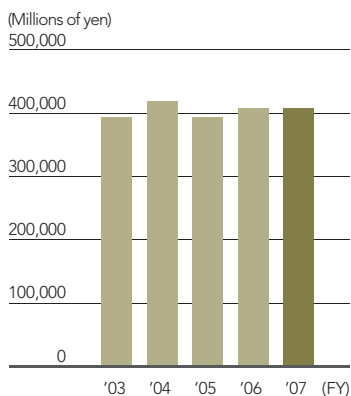
### Operating Income



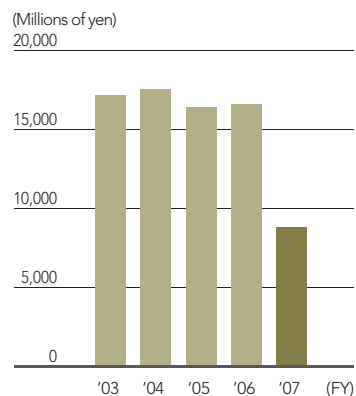
## HOUSING AND HOUSING-RELATED BUSINESSES



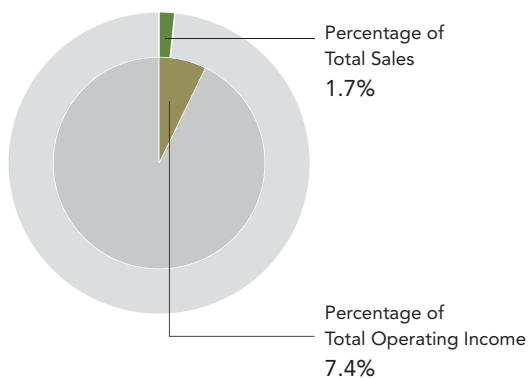
### Net Sales



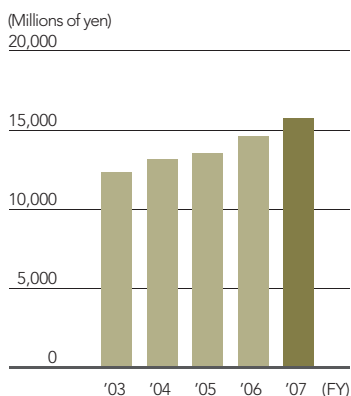
### Operating Income



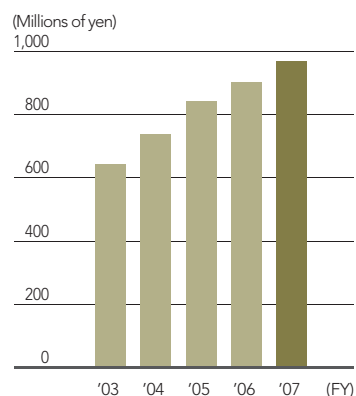
## OTHER BUSINESSES



### Net Sales



### Operating Income



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

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

# TIMBER AND BUILDING MATERIALS BUSINESS

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

## Segment Performance Highlights

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

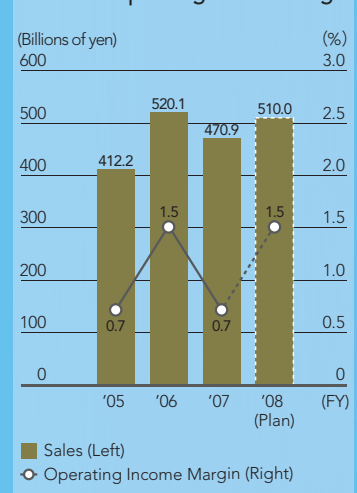
Note: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

## Operating Income of Main Subsidiaries

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

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

## Sales and Operating Income Margin



## Basic Strategies

### Distribution of Timber and Building Materials Business

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

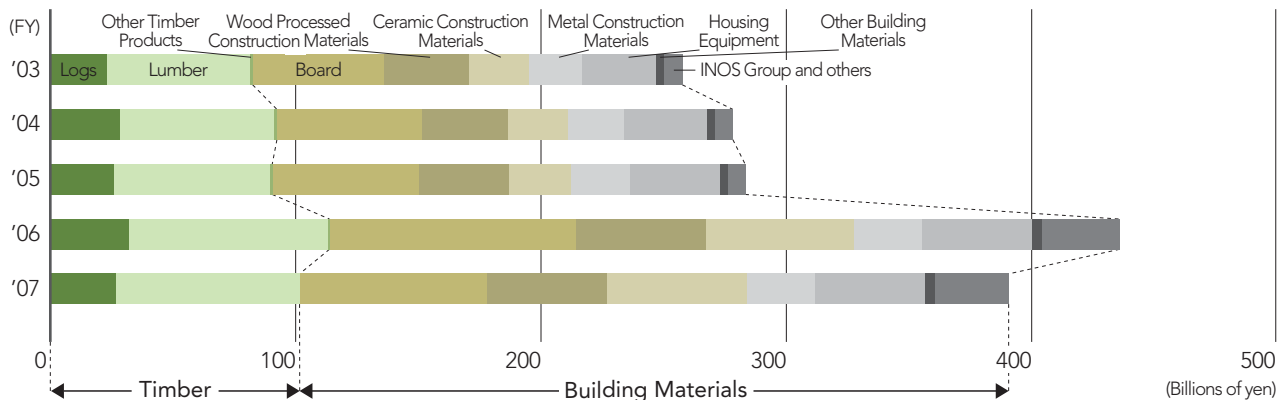
### Manufacturing of Building Materials Business

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

### Forestry Business

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

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



## FISCAL 2007 PERFORMANCE REVIEW

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

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

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

domestic market.

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

### Review of Segment Results

#### Distribution of Timber and Building Materials Business

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

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

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

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



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

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

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

### Manufacturing of Building Materials Business

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

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

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

### Forestry Business

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

During the year, we continued to apply small area



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

Masahiro Mine

## INTERVIEW

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

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

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

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

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

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

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

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

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

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

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

# HOUSING AND HOUSING-RELATED BUSINESSES

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

## Segment Performance Highlights

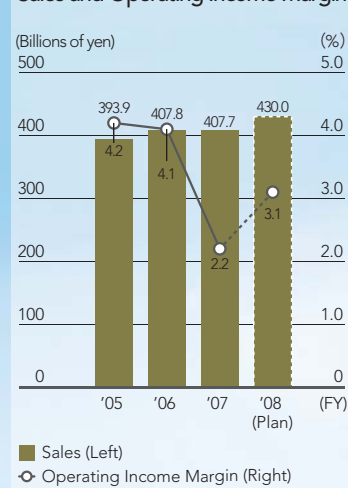
	(Millions of yen)			
	FY2005	FY2006	FY2007	FY2008 Plan
Sales	393,868	407,780	407,687	430,000
Operating income	16,370	16,586	8,797	13,200
Assets	105,579	113,276	129,440	—
Capital expenditures	3,737	3,481	5,023	—

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

## Operating Income of Main Subsidiaries

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

## Sales and Operating Income Margin



## Basic Strategies

### New Custom-built Housing Business

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

### Remodeling Business

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

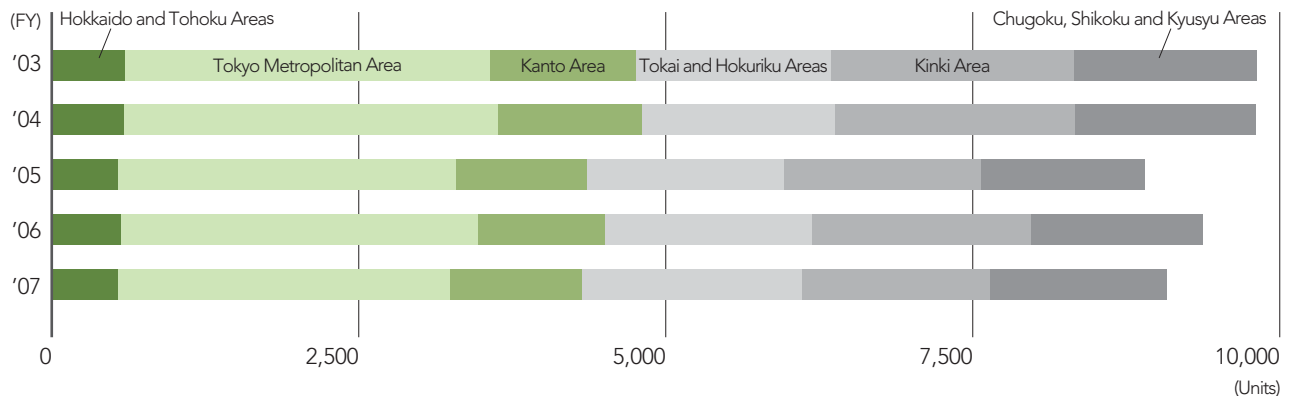
### Overseas Housing Business

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

### Real Estate Business

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

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



## FISCAL 2007 PERFORMANCE REVIEW

### Business Environment and Results— Sales -0.1%, Operating Income -47.0%

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

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

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

### Review of Segment Results

#### New Custom-built Housing Business

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

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





“MyForest-MiQUO”

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

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

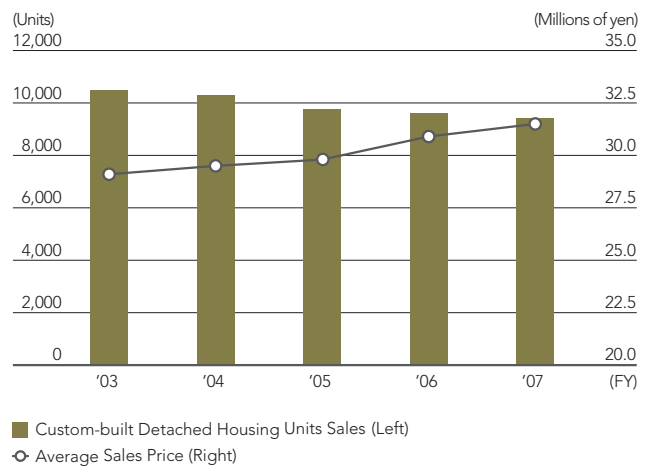
As a result, the value of completed units constructed using our wooden post-and-beam construction method increased 0.5%, to ¥286.7 billion. Value per 1 *tsubo* (3.3m<sup>2</sup>) on a completion basis rose 2.1%, to ¥728,000, and value per 1 *tsubo* on an order basis grew 2.4%, to ¥762,000. However, unit orders declined 4.1%, to 8,987 units, due to a slump in orders received stemming from consumer restraint amid a slowing economy.

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

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

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

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



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

### Remodeling Business

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

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

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

### Overseas Housing Business

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



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

## INTERVIEW

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

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

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

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

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

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

### Real Estate Business

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

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

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

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

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

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

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

## OTHER BUSINESSES

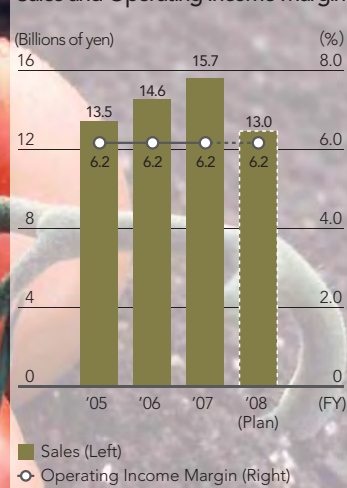
The operations of the Sumitomo Forestry Group extend beyond its business of providing comfortable housing. We also offer a wide range of services that help our customers lead fulfilling lifestyles and also benefit local communities and the surrounding environment. These services include the production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

### Segment Performance Highlights

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

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

### Sales and Operating Income Margin



### FISCAL 2007 PERFORMANCE REVIEW

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

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

### OUTLOOK AND STRATEGIES FOR FISCAL 2008

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