

FINANCIAL SECTION

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TEN-YEAR SUMMARY

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

| | Millions of yen (unless otherwise specified) | | |
|--|--|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Operating Results: | | | |
| Net sales and contract revenues | ¥ 861,357 | ¥ 911,674 | ¥ 791,128 |
| Timber and Building Materials Business* ¹ | 470,945 | 520,103 | 412,182 |
| Housing and Housing-related Businesses* ¹ | 407,687 | 407,780 | 393,868 |
| Other Businesses | 15,734 | 14,597 | 13,549 |
| Elimination and / or corporate | (33,009) | (30,806) | (28,471) |
| Gross profit | 135,277 | 141,117 | 127,853 |
| Selling, general and administrative expenses | 128,041 | 120,711 | 112,407 |
| Operating income | 7,235 | 20,405 | 15,446 |
| Timber and Building Materials Business* ¹ | 3,330 | 7,967 | 2,806 |
| Housing and Housing-related Businesses* ¹ | 8,797 | 16,586 | 16,370 |
| Other Businesses | 969 | 903 | 841 |
| Elimination and / or corporate | (5,860) | (5,051) | (4,571) |
| Recurring income* ² | 7,659 | 21,259 | 16,800 |
| Net income (loss) | 1,115 | 11,954 | 10,842 |
| Financial Position: | | | |
| Total assets | ¥ 450,730 | ¥ 500,136 | ¥ 464,193 |
| Working capital* ³ | 64,156 | 76,453 | 68,037 |
| Interest-bearing debt | 25,816 | 25,739 | 22,067 |
| Total net assets* ⁴ | 173,089 | 188,855 | 175,206 |
| Cash Flows: | | | |
| Cash flows from operating activities | ¥ 26,106 | ¥ 7,084 | ¥ 16,626 |
| Cash flows from investment activities | (17,587) | (7,102) | (8,998) |
| Cash flows from financing activities | (4,262) | 665 | (14,039) |
| Cash and cash equivalents at the end of the year | 54,475 | 50,311 | 49,628 |
| Capital Investment:*⁵ | | | |
| Tangible fixed assets | ¥ 9,578 | ¥ 6,724 | ¥ 8,132 |
| Software | 1,691 | 1,581 | 1,857 |
| Others | 225 | 721 | 454 |
| Total | 11,494 | 9,026 | 10,443 |
| Depreciation and amortization | 7,258 | 6,476 | 6,403 |
| Per Share Data: | | | |
| | Yen | | |
| Net income (loss) | ¥ 6.3 | ¥ 67.4 | ¥ 61.3 |
| Net assets | 976.0 | 1,059.2 | 996.0 |
| Cash dividends | 15.00 | 15.00 | 13.00 |
| Financial Ratios: | | | |
| | % | | |
| Gross profit margin | 15.7 | 15.5 | 16.2 |
| Operating income margin | 0.8 | 2.2 | 2.0 |
| Recurring income margin | 0.9 | 2.3 | 2.1 |
| Return on asset (ROA)* ⁶ | 1.6 | 4.4 | 4.0 |
| Return on equity (ROE)* ⁶ | 0.6 | 6.6 | 6.6 |
| Equity ratio | 38.4 | 37.5 | 37.7 |
| Interest-bearing debt ratio* ⁷ | 13.0 | 12.1 | 11.2 |
| Current ratio | 127.6 | 129.3 | 129.3 |
| Interest coverage ratio [times] | 4.5 | 11.2 | 10.8 |

Notes: 1. Starting in fiscal 2000, the profits from transactions in housing materials have been included in the Housing and Housing-related segment; they were previously included in the Timber and Building Materials segment.

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)

| 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| ¥ 723,193 | ¥ 673,779 | ¥ 645,100 | ¥ 644,730 | ¥ 682,375 | ¥ 699,594 | ¥ 620,615 |
| 320,255 | 293,220 | 283,517 | 270,856 | 279,811 | 340,988 | 294,411 |
| 418,313 | 393,616 | 370,421 | 381,978 | 405,150 | 370,692 | 335,782 |
| 13,185 | 12,350 | 17,882 | 18,050 | 16,978 | 15,481 | 13,900 |
| (28,560) | (25,408) | (26,721) | (26,154) | (19,565) | (27,568) | (23,480) |
| 125,582 | 120,778 | 109,631 | 109,437 | 118,064 | 112,269 | 99,692 |
| 107,116 | 103,201 | 100,858 | 106,397 | 102,065 | 98,720 | 93,481 |
| 18,466 | 17,577 | 8,772 | 3,040 | 15,999 | 13,549 | 6,210 |
| 4,615 | 3,813 | 2,238 | 1,882 | 5,128 | 14,770 | 11,341 |
| 17,530 | 17,150 | 9,920 | 4,961 | 16,631 | 5,141 | 942 |
| 738 | 644 | 415 | 579 | 519 | 569 | 1,315 |
| (4,418) | (4,030) | (3,802) | (4,384) | (6,279) | (6,933) | (7,388) |
| 18,692 | 17,074 | 9,721 | 3,731 | 16,908 | 12,541 | 6,305 |
| 8,014 | 9,870 | (15,439) | 465 | 6,994 | 5,708 | 134 |
| ¥ 370,684 | ¥ 369,755 | ¥ 357,322 | ¥ 365,531 | ¥ 371,102 | ¥ 360,935 | ¥ 346,293 |
| 67,579 | 66,377 | 60,260 | 60,477 | 61,319 | 68,892 | 71,746 |
| 15,580 | 19,929 | 16,497 | 18,124 | 24,517 | 35,720 | 40,059 |
| 152,500 | 146,269 | 129,727 | 147,440 | 150,979 | 144,914 | 139,301 |
| ¥ 6,685 | ¥ 25,962 | ¥ 19,734 | ¥ 17,332 | ¥ 3,468 | ¥ (3,281) | ¥ 26,715 |
| (12,895) | (7,646) | 2,026 | (16,439) | (1,960) | (3,330) | 2,068 |
| (7,087) | (735) | (8,171) | (9,716) | (13,873) | (5,351) | (8,257) |
| 55,928 | 69,312 | 52,029 | 38,873 | 47,476 | 59,916 | 71,971 |
| ¥ 7,016 | ¥ 4,040 | ¥ 2,761 | ¥ 7,705 | ¥ 4,448 | ¥ 4,373 | ¥ — |
| 1,673 | 1,468 | 2,077 | 2,194 | 1,889 | 1,264 | — |
| 549 | 883 | 283 | 225 | 252 | 303 | — |
| 9,237 | 6,392 | 5,123 | 10,124 | 6,590 | 5,941 | 4,556 |
| 6,452 | 6,447 | 5,985 | 5,289 | 4,551 | 4,756 | 5,060 |
| Yen | | | | | | |
| ¥ 45.3 | ¥ 55.8 | ¥ (87.5) | ¥ 2.6 | ¥ 39.6 | ¥ 32.4 | ¥ 0.8 |
| 866.5 | 830.5 | 736.4 | 835.1 | 854.9 | 821.6 | 789.8 |
| 13.00 | 13.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| % | | | | | | |
| 17.4 | 17.9 | 17.0 | 17.0 | 17.3 | 16.0 | 16.1 |
| 2.6 | 2.6 | 1.4 | 0.5 | 2.3 | 1.9 | 1.0 |
| 2.6 | 2.5 | 1.5 | 0.6 | 2.5 | 1.8 | 1.0 |
| 5.0 | 4.7 | 2.7 | 1.0 | 4.6 | 3.5 | 1.8 |
| 5.4 | 7.2 | (11.1) | 0.3 | 4.7 | 4.0 | 0.1 |
| 41.1 | 39.6 | 36.3 | 40.3 | 40.7 | 40.1 | 40.2 |
| 9.3 | 12.0 | 11.3 | 10.9 | 14.0 | 19.8 | 22.3 |
| 137.4 | 135.7 | 132.6 | 131.8 | 131.1 | 137.7 | 141.6 |
| 18.6 | 21.9 | 18.3 | 7.8 | 22.6 | 18.6 | 5.8 |

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

5. Disclosure of capital investment was not institutionalized prior to fiscal 1999, thus data prior to fiscal 1999 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

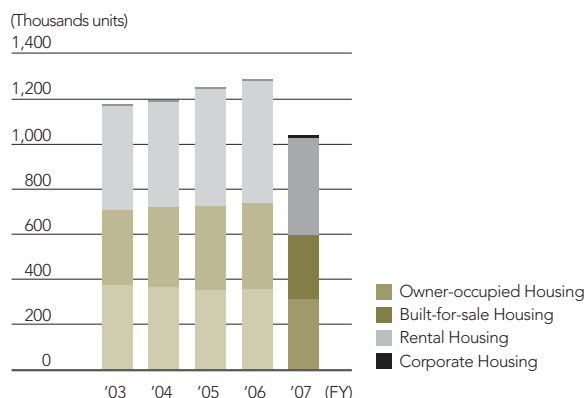
ROE = Net income (loss) / Shareholders' equity

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

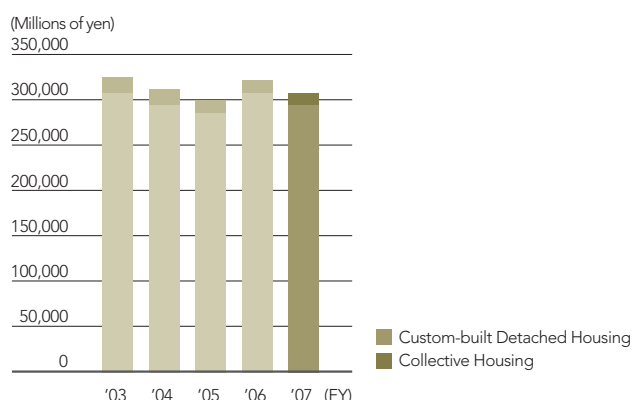
MANAGEMENT DISCUSSION AND ANALYSIS

(including business risk disclosure)

Number of New Housing Starts in Japan



Amount of Orders Received



MARKET OVERVIEW

The Japanese economy was on a general path of recovery in the business year ended March 2008, due to an increase in exports to growing Asian economies and a rise in private capital investment, reflecting strong corporate earnings.

However, corporate profitability weakened toward the end of the year amid the surge in prices of raw materials and the slowdown of the U.S. economy caused by the subprime mortgage crisis, while households remained unable to feel the benefits of the recovery during the year. As a result, the economy faced downside risks.

In the housing sector, interest in housing investment weakened as consumer sentiment was dampened by uncertainty over the future course of the Japanese economy, sluggish growth in overall wages, and the rising prices of daily commodities. This, combined with the impact of the enforcement of the amended Building Standards Law, caused new housing starts to plunge 19.4% from the previous year to 1,036,000 units. Owner-occupied housing starts, which are closely related to our housing business, decreased 12.3% to 312,000 units.

In the timber and building materials sector, we faced a very difficult market environment as the price of plywood dropped sharply and the prices of other timber and building materials also fell, due to the combination of an increase in the supply of materials following strong sales in the previous year and a decline in demand due to the reduction in housing starts.

CONSOLIDATED OPERATING RESULTS

1. Net Sales and Orders Received

Sales declined by ¥50.318 billion, or 5.5%, year-on-year to ¥861.357 billion. Although the number of custom-built detached houses completed in the year declined, sales fell only marginally due to a rise in the unit price. However, an excess supply of timber and building materials caused by the decline in housing starts led to weak sales in our timber and building materials business. The value of orders for custom-

built detached houses dropped by 4.1% year-on-year to ¥295.413 billion and the number of order units fell by 4.6% to 9,301 units. The negative impact of weak consumer sentiment due to uncertainty over the future course of the economy outweighed the effects of our sales strategy of meeting various local needs by offering an expanded product lineup.

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by ¥7.330 billion, or 6.1%, year-on-year to ¥128.041 billion. While we increased personnel expenses with a view to future business expansion, we made company-wide efforts to reduce costs to a minimum. However, overall expenses expanded as we booked expenses of ¥4.533 billion related to the Company's retirement benefit obligations.

3. Operating Income

Operating income decreased by ¥13.170 billion, or 64.5%, year-on-year to ¥7.235 billion, as a result of a decline in the gross profit margin due to the slumping prices of timber and building materials and a rise in the prices of raw materials for custom-built wooden houses in our housing and housing-related businesses. It should be noted that if the aforementioned expenses related to retirement benefit obligations are excluded, operating income comes to ¥11.769 billion, representing a year-on-year decline of 36.4%.

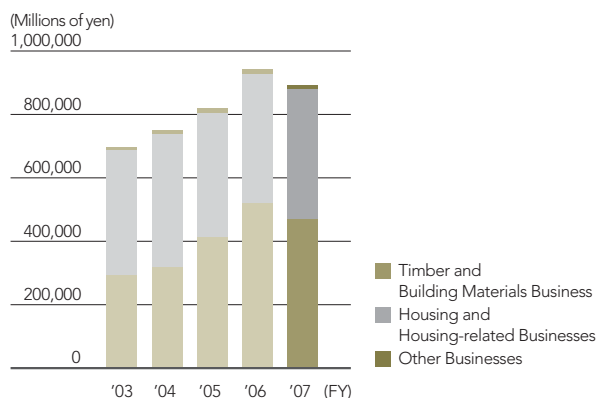
4. Other Income and Expenses

Other income minus other expenses dropped 674.7% year-on-year to minus ¥1.634 billion, mainly because we booked valuation losses of ¥3.837 billion on our investment securities holdings amid the stock market slump.

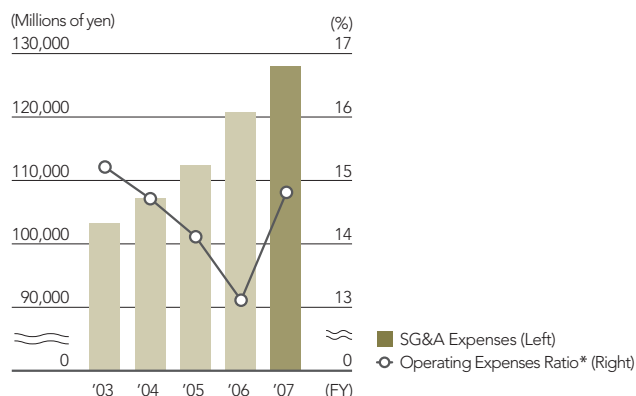
5. Net Income

As a result of the above factors, net income decreased by ¥10.839 billion, or 90.7%, year-on-year to ¥1.115 billion. Accordingly, net income per share fell by ¥61.14 to ¥6.29.

Net Sales and Contract Revenues



SG&A Expenses and Operating Expenses Ratio



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

SEGMENT RESULTS

(including intersegment transactions)

1. Timber and Building Materials Business

Net sales in our timber and building materials business declined 9.5% year-on-year to ¥470.945 billion and operating income dropped by 58.2% to ¥3.330 billion. In distribution of timber and building materials business, we suffered from falls in the sales prices and sales volumes, since housing starts declined sharply as a result of a decrease in housing demand and the disruption caused by the enforcement of the amended Building Standards Law. Meanwhile, as a manufacturer of building materials in Japan and abroad, we managed to improve our profitability despite slack sales—attributable to reduced domestic demand and the rising costs of raw materials and transportation—thanks to our maintaining steady production and sales of medium-density fiberboard (MDF) in Oceania.

2. Housing and Housing-related Businesses

Net sales in our housing and housing-related businesses declined 0.1% year-on-year to ¥407.687 billion and operating income dropped 47.0% to ¥8.797 billion. The sales of custom-built houses declined due to weak housing demand, and the profitability of our housing business was lowered by a surge in the prices of timber and other materials. Meanwhile, we strived to expand our real estate business by strengthening real estate develop-

ment, including condominium sales and rentals, and by starting sales of spec homes in eight locations, including Hadano City in Kanagawa Prefecture and Nagoya City in Aichi Prefecture. In our remodeling business, we strived to secure customers planning medium or large-scale remodeling by periodically holding events such as visits to houses under remodeling construction.

FINANCIAL POSITION AND CASH FLOW

1. Financial Position

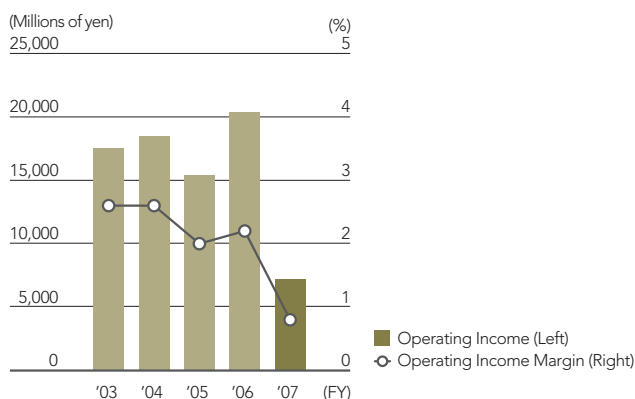
During the business year ended March 2008, total assets decreased by ¥49.406 billion year-on-year to ¥450.730 billion. The decrease mainly reflected a decline of ¥40.057 billion in current assets—attributable to a decrease in notes and accounts receivable—resulting from lower sales and a reduction of products, and a reduction of ¥15.329 billion in investments and other assets due to the write-down of investment securities. Total liabilities declined by ¥33.640 billion to ¥277.641 billion, mainly because notes payable and accounts payable decreased due to reduced procurements, reflecting the aforementioned lower sales, and because deferred tax liabilities decreased as a result of the stock market slump. Total net assets declined by ¥15.766 billion to ¥173.089 billion because of a decrease in the valuation and translation adjustments. The equity ratio stood at 38.4%.

Business Results by Segment

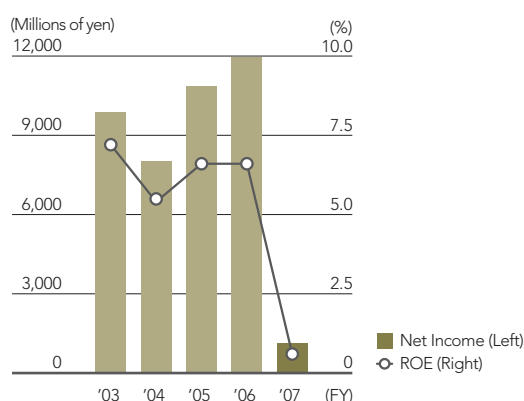
| | Timber and Building Materials Business | | Housing and Housing-related Businesses | | Other Businesses | |
|-------------------------|--|---------|--|---------|------------------|--------|
| | FY2007 | FY2006 | FY2007 | FY2006 | FY2007 | FY2006 |
| Net sales | 470,945 | 520,103 | 407,687 | 407,780 | 15,734 | 14,597 |
| Operating income | 3,330 | 7,967 | 8,797 | 16,586 | 969 | 903 |
| Operating income margin | 0.7% | 1.5% | 2.2% | 4.1% | 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 and ROE



2. Cash Flow

Net cash generated by operating activities increased by ¥19.022 billion year-on-year to ¥26.106 billion, as the progress in the collection of accounts receivable that came with the decline in sales in our timber and building materials business offset an increase in inventories of real estate for sale due to efforts to promote our real estate business. Net cash used for investment activities increased by ¥10.485 billion to ¥17.587 billion as a result of capital investment by domestic and foreign manufacturing subsidiaries and the acquisition of additional shares in consolidated subsidiaries. Financing activities recorded a net cash outflow of ¥4.262 billion, a turnaround from the previous year's inflow of ¥665 million, because of the repayment of interest-bearing debts and the payment of dividends.

BUSINESS RISK

1. Housing Market Trends

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

1) Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, as well as a decline in personal consumption caused by such factors, could negatively affect the group's business results by weakening customer interest in purchasing housing.

2) Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build collective housing for the effective use of their land. The anticipation of rises in interest rates can induce a temporary surge in home purchases however as consumers seek to avoid high loan costs.

3) Land Price Fluctuations

A sharp rise in land prices can have a negative effect on consumer inclination to purchase land on which to build housing. Conversely, a steep drop in land 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.

4) Tax System Changes

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

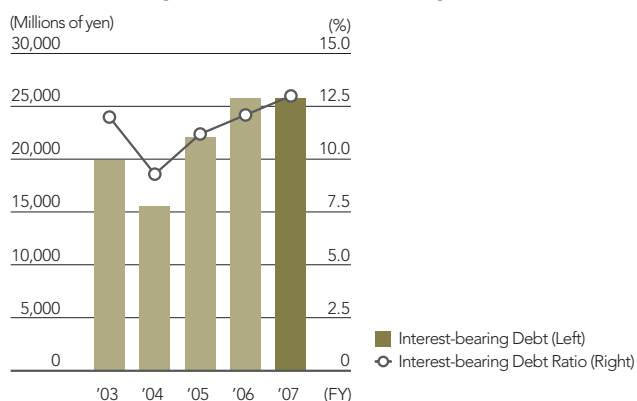
2. Statutory Changes

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.

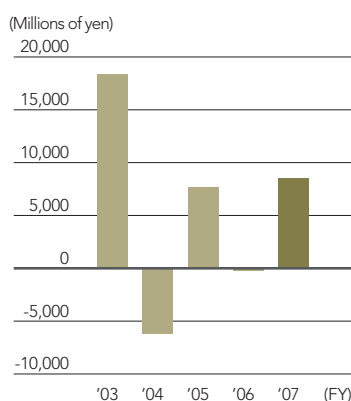
3. Timber and Building Materials Market Conditions

Declines in prices for timber and building materials reduce the profitability of the timber and building materials business. On the other hand, steep increases in prices for timber and building materials, as well as rises in prices for other building materials, can lead to higher materials costs for the housing business which could 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.

Interest-bearing Debt and Interest-bearing Debt Ratio



Free Cash Flows



* Free Cash Flows = Cash Flows from Operating Activities + Cash Flows from Investment Activities

4. Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks involved in foreign currency-denominated imports through foreign exchange forward contracts and other means. However, foreign exchange rate fluctuations could push the group's costs temporarily up or down. Meanwhile, a group company that manufactures and sells wooden building materials abroad, for example, could be negatively impacted if the currency of its host country appreciates against the currency used for settlement.

5. Product Quality Assurance

The group endeavors to implement complete quality control of its products, housing, and in all aspects of its operations. However, unforeseen circumstances can potentially lead to a significant quality issue that could influence the group's business results.

6. Overseas Business Activities

The group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the group conducts business can influence the group's business results.

7. Retirement Benefit Obligations

A significant deterioration in the operating environment for the group's pension assets, such as substantial fluctuations in the domestic stock market or the necessity to revise the assumptions for pension actuarial calculations, can require an increase in pension assets or can increase the costs associated with the pension accounts, and could influence the group's business results and financial position.

8. Stock Market

Volatile stock price fluctuations could cause the Group

to book evaluation losses on its securities holdings, thereby negatively impacting its business results and financial position.

9. Natural Disasters

Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases from operating interruptions at facilities, safety verification of our housing products, completion delays for construction contracts, or other actions. A significant increase in costs caused by a natural disaster could influence group business results.

10. Information Security

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an employee or contracted worker, an accident, or other causes. In such cases, the group could face customer claims for compensatory damages and lose the trust of customers and the market, which could negatively affect its business results.

11. Environmental Risk

"Symbiosis with the Environment" is a top priority for the group and is one of the four action guidelines of the group's corporate philosophy. Changes to environmental regulations in Japan or overseas or the occurrence of major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems, or other expenses that could influence the group's business results.

* Future possibilities referred to in this section are those that were deemed by the Sumitomo Forestry Group as potential risk factors at the time when this annual report was compiled.

CONSOLIDATED BALANCE SHEETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|------------------|------------------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Current assets: | | | |
| Cash and time deposits (Note 11) | ¥ 39,591 | ¥ 47,385 | \$ 395,905 |
| Marketable securities (Notes 5, 11) | 15,000 | 3,000 | 150,000 |
| Receivables- | | | |
| Notes and accounts, trade | 120,308 | 167,404 | 1,203,078 |
| Loans and other | 47,383 | 50,138 | 473,827 |
| Inventories- | | | |
| Finished goods, logs and lumber | 22,985 | 30,087 | 229,848 |
| Developed land and housing for sale | 14,865 | 12,128 | 148,652 |
| Land and housing projects in progress | 27,760 | 16,698 | 277,599 |
| Deferred income taxes (Note 8) | 5,588 | 6,179 | 55,881 |
| Other current assets | 4,167 | 4,710 | 41,669 |
| Allowance for doubtful accounts | (631) | (657) | (6,314) |
| Total current assets | 297,014 | 337,072 | 2,970,145 |
| Property, plant and equipment, at cost less accumulated depreciation (Note 7): | | | |
| Land | 20,644 | 19,812 | 206,437 |
| Buildings and structures | 41,463 | 37,665 | 414,629 |
| Machinery and equipment | 67,476 | 62,587 | 674,761 |
| Timberland (Note 6) | 11,044 | 10,741 | 110,443 |
| Construction in progress | 5,552 | 3,867 | 55,524 |
| | 146,179 | 134,672 | 1,461,794 |
| Less accumulated depreciation | (66,259) | (60,622) | (662,587) |
| Net property, plant and equipment | 79,921 | 74,050 | 799,207 |
| Intangible assets, net of amortization: | | | |
| Goodwill | 1,025 | 927 | 10,249 |
| Other intangible assets | 5,399 | 5,386 | 53,986 |
| Total intangible assets | 6,423 | 6,313 | 64,235 |
| Investments and other assets: | | | |
| Investment securities (Note 5) | 47,890 | 71,584 | 478,898 |
| Long-term loans and receivables | 9,557 | 2,258 | 95,568 |
| Deferred income taxes (Note 8) | 1,599 | 1,101 | 15,993 |
| Other assets | 9,664 | 9,595 | 96,640 |
| Allowance for doubtful accounts | (1,339) | (1,837) | (13,386) |
| Total investments and other assets | 67,371 | 82,700 | 673,713 |
| Total assets | ¥ 450,730 | ¥ 500,136 | \$ 4,507,300 |

See accompanying notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|------------------|------------------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Current liabilities: | | | |
| Payables- | | | |
| Notes and accounts, trade | ¥ 148,198 | ¥ 167,140 | \$ 1,481,983 |
| Other | 5,574 | 8,297 | 55,743 |
| Short-term debt (Note 7) | 12,046 | 14,355 | 120,456 |
| Current portion of long-term debt (Note 7) | 5,360 | 2,621 | 53,596 |
| Advances received from customers | 41,385 | 44,446 | 413,847 |
| Accrued income taxes | 3,012 | 4,602 | 30,117 |
| Accrued employees' bonuses | 7,637 | 8,566 | 76,373 |
| Accrued directors and corporate auditors' bonuses | 42 | 83 | 417 |
| Other current liabilities (Note 8) | 9,605 | 10,507 | 96,047 |
| Total current liabilities | 232,858 | 260,619 | 2,328,579 |
| Long-term liabilities: | | | |
| Long-term debt (Note 7) | 8,411 | 8,763 | 84,107 |
| Deferred income taxes (Note 8) | 6,377 | 15,400 | 63,774 |
| Accrued employees' retirement benefits (Note 16) | 15,063 | 12,383 | 150,631 |
| Other long-term liabilities | 14,932 | 14,116 | 149,323 |
| Total long-term liabilities | 44,784 | 50,662 | 447,835 |
| 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 2008 and 177,410,239 shares in 2007 | 27,672 | 27,672 | 276,721 |
| Capital surplus | 26,876 | 26,882 | 268,760 |
| Retained earnings | 107,198 | 108,919 | 1,071,982 |
| Treasury stock: 237,846 shares in 2008 and 174,188 shares in 2007 | (249) | (184) | (2,495) |
| Total shareholders' equity | 161,497 | 163,288 | 1,614,968 |
| Valuation and translation adjustments: | | | |
| Unrealized gain on available-for-sale securities | 9,085 | 22,482 | 90,847 |
| Deferred gains or losses on hedges | 59 | 155 | 591 |
| Foreign currency translation adjustments | 2,278 | 1,804 | 22,785 |
| Total valuation and translation adjustments | 11,422 | 24,441 | 114,223 |
| Minority interests in consolidated subsidiaries | 169 | 1,125 | 1,695 |
| Total net assets | 173,089 | 188,855 | 1,730,886 |
| Total liabilities and net assets | ¥ 450,730 | ¥ 500,136 | \$ 4,507,300 |

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|--|-----------------|-----------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Sales: | | | |
| Net sales | ¥ 496,478 | ¥ 545,735 | \$ 4,964,784 |
| Contract revenues | 364,878 | 365,940 | 3,648,781 |
| Total | 861,357 | 911,674 | 8,613,565 |
| Cost of sales: | | | |
| Cost of sales | 456,481 | 504,152 | 4,564,810 |
| Cost of contracts completed | 269,599 | 266,405 | 2,695,987 |
| Total | 726,080 | 770,558 | 7,260,797 |
| Gross profit | 135,277 | 141,117 | 1,352,768 |
| Selling, general and administrative expenses (Note 10) | 128,041 | 120,711 | 1,280,414 |
| Operating income | 7,235 | 20,405 | 72,354 |
| Other income (expenses): | | | |
| Interest and dividends income | 1,570 | 1,299 | 15,698 |
| Interest expense | (1,444) | (1,284) | (14,438) |
| Equity in earnings of affiliates | — | 228 | — |
| Loss on devaluation of investment securities | (3,837) | (9) | (38,371) |
| Loss on devaluation of real estate for sale and other assets | (177) | (137) | (1,769) |
| Loss on the move of business establishment | — | (352) | — |
| Loss on business restructuring | — | (663) | — |
| Loss on retirement allowance by merger | — | (145) | — |
| Gain on sales of investment securities | 2,247 | 273 | 22,467 |
| Other gains, net (Note 9) | 7 | 1,073 | 73 |
| Total | (1,634) | 284 | (16,340) |
| Income before income taxes and minority interests | 5,601 | 20,689 | 56,014 |
| Income taxes (Note 8): | | | |
| Current | 5,156 | 5,381 | 51,557 |
| Deferred | (661) | 3,180 | (6,610) |
| Total | 4,495 | 8,561 | 44,947 |
| Minority interests | (8) | 174 | (83) |
| Net Income | ¥ 1,115 | ¥ 11,954 | \$ 11,150 |
| Per share of common stock: | | | |
| Net Income (Note 18) | ¥ 6.29 | ¥ 67.43 | \$ 0.06 |
| Cash dividends | 15.00 | 15.00 | 0.15 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

| | 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 | Deferred Gains or Losses on Hedges | Foreign Currency Translation Adjustments | Minority Interests | Total Net Assets | |
| 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 | |
| Cash dividends (¥15.00 per share) | | — | — | (2,835) | — | — | — | — | — | (2,835) | |
| Net income | | — | — | 1,115 | — | — | — | — | — | 1,115 | |
| Purchases of treasury stock | | — | — | — | (95) | — | — | — | — | (95) | |
| Disposal of treasury stock | | — | (6) | — | 30 | — | — | — | — | 24 | |
| Other changes | | — | — | — | — | (13,397) | (96) | 474 | (956) | (13,975) | |
| Balance as at March 31, 2008 | 177,410,239 | ¥ 27,672 | ¥ 26,876 | ¥ 107,198 | ¥ (249) | ¥ 9,085 | ¥ 59 | ¥ 2,278 | ¥ 169 | ¥ 173,089 | |

| | Thousands of U.S. dollars (Note 4) | | | | | | | | | | |
|-----------------------------------|------------------------------------|-----------------|-------------------|------------------------|--|------------------------------------|--|--------------------|------------------|--|--|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock at Cost | Unrealized Gain on Available-for-sale Securities | Deferred Gains or Losses on Hedges | Foreign Currency Translation Adjustments | Minority Interests | Total Net Assets | | |
| Balance as of March 31, 2007 | \$ 276,721 | \$ 268,818 | \$ 1,089,186 | \$ (1,844) | \$ 224,818 | \$ 1,552 | \$ 18,040 | \$ 11,254 | \$ 1,888,545 | | |
| Cash dividends (¥15.00 per share) | — | — | (28,354) | — | — | — | — | — | (28,354) | | |
| Net income | — | — | 11,150 | — | — | — | — | — | 11,150 | | |
| Purchases of treasury stock | — | — | — | (949) | — | — | — | — | (949) | | |
| Disposal of treasury stock | — | (58) | — | 298 | — | — | — | — | 240 | | |
| Other changes | — | — | — | — | (133,971) | (961) | 4,745 | (9,559) | (139,746) | | |
| Balance as of March 31, 2008 | \$ 276,721 | \$ 268,760 | \$ 1,071,982 | \$ (2,495) | \$ 90,847 | \$ 591 | \$ 22,785 | \$ 1,695 | \$ 1,730,886 | | |

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, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|-----------------|----------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | ¥ 5,601 | ¥ 20,689 | \$ 56,014 |
| Adjustments — | | | |
| Depreciation and amortization | 7,258 | 6,476 | 72,582 |
| Amortization of goodwill | 682 | 576 | 6,821 |
| Provision for (reversal of) doubtful accounts | (528) | (517) | (5,278) |
| Provision for (reversal of) employee's retirement benefits, less payments | 2,678 | (3,495) | 26,776 |
| Interest and dividend income | (1,570) | (1,299) | (15,698) |
| Interest expense | 1,444 | 1,284 | 14,438 |
| Equity in earnings of affiliates | 185 | (228) | 1,845 |
| Losses on devaluation of marketable securities and investment securities | 3,837 | 9 | 38,371 |
| Losses (gains) on sales of marketable securities and investment securities, net | (2,247) | (273) | (22,467) |
| Losses (gains) on disposal of fixed assets, net | (3) | (326) | (29) |
| Change in assets and liabilities: | | | |
| Notes and accounts receivable, trade | 47,823 | (23,440) | 478,234 |
| Inventories | (6,053) | (10,671) | (60,526) |
| Other current assets | 29 | (3,672) | 290 |
| Notes and accounts payable, trade | (22,129) | 14,188 | (221,291) |
| Advances received from customers | (3,296) | 6,914 | (32,963) |
| Other current liabilities | (1,874) | 549 | (18,740) |
| Other | 560 | 878 | 5,598 |
| Total | 32,398 | 7,642 | 323,977 |
| Interest and dividend income received | 1,873 | 1,448 | 18,728 |
| Interest paid | (1,458) | (1,275) | (14,581) |
| Income taxes paid, net | (6,707) | (731) | (67,066) |
| Net cash provided by operating activities | 26,106 | 7,084 | 261,058 |
| Cash flows from investment activities: | | | |
| Decrease (increase) in short-term loans receivable | (1,252) | (445) | (12,522) |
| Payments for purchases of fixed assets | (12,598) | (11,613) | (125,981) |
| Proceeds from sales of fixed assets | 3,305 | 7,676 | 33,046 |
| Payments for purchases of intangible assets | (1,695) | (1,586) | (16,947) |
| Payments for purchases of investment securities | (3,144) | (2,143) | (31,436) |
| Proceeds from sales of investment securities | 2,808 | 1,294 | 28,077 |
| Payments for additional acquisition of stock of consolidated subsidiaries | (1,106) | — | (11,056) |
| Payments for purchase of stock of subsidiary newly consolidated | (417) | — | (4,170) |
| Proceeds from purchase of stock of subsidiary newly consolidated | 76 | — | 759 |
| Payments for long-term loans receivable | (3,685) | (186) | (36,854) |
| Repayments of long-term loans receivable | 104 | 106 | 1,042 |
| Other | 17 | (204) | 174 |
| Net cash used in investment activities | (17,587) | (7,102) | (175,868) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowings | (2,896) | 3,031 | (28,965) |
| Proceeds from long-term debt | 5,439 | 3,632 | 54,388 |
| Repayments of long-term debt | (3,845) | (3,522) | (38,453) |
| Dividends paid | (2,835) | (2,295) | (28,354) |
| Other | (123) | (180) | (1,235) |
| Net cash used in financing activities | (4,262) | 665 | (42,619) |
| Effect of exchange rate changes on cash and cash equivalents | (93) | 35 | (932) |
| Net increase (decrease) in cash and cash equivalents | 4,164 | 682 | 41,639 |
| Cash and cash equivalents at the beginning of the year | 50,311 | 49,628 | 503,107 |
| Cash and cash equivalents at the end of the year (Note 11) | ¥ 54,475 | ¥ 50,311 | \$ 544,746 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

1. NATURE OF OPERATIONS

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle related businesses, including the leasing and insurance agent business.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The 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 Financial Instruments and Exchange Law of Japan (formerly, Securities and Exchange Law of Japan).

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

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

As permitted, 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 within twenty-years. Immaterial differences are expensed when incurred.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

(c) Statements of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(e) Accrued employees' bonuses

Accrued employees' bonuses are provided based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

(f) Warranty reserve for completed construction

A warranty reserve is provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The balance of the reserves at March 31, 2008, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥1,327 million (US \$13,266 thousand).

(g) Accrued employees' retirement benefits

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

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

(h) Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors of some subsidiaries are provided based on the amount required 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, 2008, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥888 million (US \$8,876 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent

and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

The Company determines cost of securities sold by the moving average method.

(k) 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.

(l) 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.

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for assets acquired on or after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law (the Corporate Tax Law). The effect of this change on the income and segment information for the year ended March 31, 2008 were immaterial.

Pursuant to an amendment to the Corporate Tax Law, effective from the year ended March 31, 2008, the Companies depreciate the difference between the original residual value of 5% of acquisition cost of assets acquired before March 31, 2007 and the new residual value of 1 Yen (memorandum value) by the straight-line method over 5 years commencing from the fiscal year following the year in which the asset becomes fully depreciated to the original residual value. Depreciated amounts are included in depreciation expenses. The effect of this change on the income and segment information for the year ended March 31, 2008 were immaterial.

(m) 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.

(n) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

Sales of pre-cut timber, building materials and certain housing equipment, such as system kitchens, system furniture, bathtubs, sinks and other, which are purchased by the Company and sold to building contractors for use in house building projects specifically subcontracted from the Company, are recognized upon completion and acceptance of the completed houses by the customers, with the related cost being included in cost of contracts completed.

Contract revenues, representing revenues from custom-built houses, are recorded when the completed

houses are accepted by customers.

(o) 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.

(p) Income taxes

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(q) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

(r) Earnings per share of common stock

The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

(s) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2007 have been reclassified to conform to presentation in 2008.

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 ¥100=US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2008. 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, 2008 and 2007 were as follows:

| | Millions of yen | | | |
|---------------------------|-----------------|------------------|-------------------|----------------------|
| | 2008 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥ 29,166 | ¥ 15,975 | ¥ (1,775) | ¥ 43,366 |
| Debt securities | — | — | — | — |
| Held-to-maturity: | | | | |
| Debt securities | 400 | — | — | 400 |
| Other | ¥ 15,000 | ¥ — | ¥ — | ¥ 15,000 |

| | 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 |

| | Thousands of U.S. dollars | | | |
|---------------------------|---------------------------|------------------|-------------------|----------------------|
| | 2008 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | \$ 291,663 | \$ 159,749 | \$ (17,748) | \$ 433,664 |
| Debt securities | — | — | — | — |
| Held-to-maturity: | | | | |
| Debt securities | 4,004 | — | — | 4,004 |
| Other | \$ 150,000 | \$ — | \$ — | \$ 150,000 |

Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| | Proceeds | ¥ 2,808 | ¥ 1,294 |
| Gross gains | 2,247 | 273 | 22,467 |
| 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, 2008 were as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|----------------------|--------------------|------------------|---------------------------|------------------|
| | 2008 | | | |
| | Available-for-sale | Held-to-maturity | Available-for-sale | Held-to-maturity |
| Due within one year | ¥ — | ¥ 15,000 | \$ — | \$ 150,000 |
| Due after one year | | | | |
| through five years | — | 293 | — | 2,929 |
| Due after five years | | | | |
| through ten years | — | 108 | — | 1,075 |
| | ¥ — | ¥ 15,400 | \$ — | \$ 154,004 |

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, 2008 and 2007 comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Standing timber: | | | |
| Mature timber | ¥ 10,763 | ¥ 10,401 | \$ 107,628 |
| Growing timber | 282 | 340 | 2,815 |
| | 11,044 | 10,741 | 110,443 |
| Land | 483 | 477 | 4,827 |
| | ¥ 11,527 | ¥ 11,217 | \$ 115,270 |

The timberland accounts at March 31, 2008 and 2007 were reduced by ¥268 million (US \$2,684 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, 2008 and 2007 generally represented short-term borrowings which bore interest of 4.90% and 4.76% per annum, respectively. Long-term debt at March 31, 2008 and 2007 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Loans, principally from banks and insurance companies, due 2009 to 2013 with interest of 6.02%: | | | |
| Secured | ¥ 2,960 | ¥ 3,220 | \$ 29,599 |
| Unsecured | 10,810 | 8,004 | 108,104 |
| Debtenture bonds: | | | |
| 0.35 basis points | — | 60 | — |
| 0.64 basis points | — | 100 | — |
| | 13,770 | 11,384 | 137,703 |
| Portion due within one year | 5,360 | 2,621 | 53,596 |
| | ¥ 8,411 | ¥ 8,763 | \$ 84,107 |

The following assets were pledged to secure bank loans and long-term debt at March 31, 2008 and 2007:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Receivables- | | | |
| Notes and accounts, trade | ¥ 428 | ¥ 457 | \$ 4,280 |
| Finished goods, | | | |
| logs and lumber | 1,153 | 1,407 | 11,531 |
| Land | 245 | 334 | 2,452 |
| Buildings and structures | 3,789 | 3,774 | 37,887 |
| Machinery and equipment | 9,561 | 9,614 | 95,611 |
| Timberland | 1,556 | 2,000 | 15,560 |
| Time deposit | 15 | — | 145 |
| | ¥ 16,747 | ¥ 17,586 | \$ 167,466 |

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

| YEARS ENDING MARCH 31 | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2008 | ¥ 5,360 | \$ 53,596 |
| 2009 | 1,403 | 14,029 |
| 2010 | 272 | 2,722 |
| 2011 | 2,281 | 22,806 |
| 2012 | 591 | 5,906 |
| Thereafter | 3,864 | 38,644 |
| | ¥ 13,770 | \$ 137,703 |

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 2008 was 40.0%.

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

| | 2008 | 2007 |
|---------------------------------------|-------|------|
| Statutory tax rate | 40.0% | — |
| Non-deductible expense for purposes | 6.3 | — |
| Per capita portion of Inhabitant Tax | 5.0 | — |
| Amortization of goodwill | 4.9 | — |
| Valuation allowance | 36.4 | — |
| Adjustment on prior year income taxes | (7.7) | — |
| Other | (4.7) | — |
| | 80.2% | — |

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, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Accrued employees' bonuses | ¥ 3,276 | ¥ 3,691 | \$ 32,764 |
| Devaluation of real estate for sale and other assets | 5,071 | 4,019 | 50,713 |
| Pension and severance costs | 5,921 | 4,870 | 59,215 |
| Tax loss carryforwards | 1,885 | 984 | 18,853 |
| Impairment loss | 1,359 | 1,397 | 13,593 |
| Other | 5,460 | 5,289 | 54,599 |
| Gross deferred tax assets | 22,974 | 20,250 | 229,737 |
| Valuation allowance | (10,511) | (8,471) | (105,106) |
| Total deferred tax assets | 12,463 | 11,780 | 124,631 |
| Deferred tax liabilities: | | | |
| Deferred gains on sales of property | (897) | (1,033) | (8,972) |
| Gain on securities contributed to employee retirement benefit trusts | (1,590) | (1,590) | (15,904) |
| Unrealized gain on available-for-sale securities | (4,909) | (13,615) | (49,088) |
| Land revaluation differences | (1,309) | (1,309) | (13,091) |
| Other | (3,019) | (2,412) | (30,190) |
| Gross deferred tax liabilities | (11,724) | (19,959) | (117,245) |
| Net deferred tax assets | ¥ 739 | ¥ (8,180) | \$ 7,386 |

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2008 and 2007 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|-----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Current assets- | | | |
| Deferred income taxes | ¥ 5,588 | ¥ 6,179 | \$ 55,881 |
| Investment and other assets- | | | |
| Deferred income taxes | 1,599 | 1,101 | 15,993 |
| Current liabilities- | | | |
| Other | (71) | (59) | (714) |
| Long-term liabilities- | | | |
| Deferred income taxes | (6,377) | (15,400) | (63,774) |
| Net deferred tax assets | ¥ 739 | ¥ (8,180) | \$ 7,386 |

9. OTHER GAINS (LOSSES), NET

Other gains (losses), net, for the years ended March 31, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Gain on sales of property, plant and equipment | ¥ 155 | ¥ 696 | \$ 1,548 |
| Loss on sales of property, plant and equipment | — | (168) | — |
| Loss on disposal of property, plant and equipment | (152) | (202) | (1,519) |
| Other, net | 4 | 747 | 44 |
| | ¥ 7 | ¥ 1,073 | \$ 73 |

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses and cost of sales for the years ended March 31, 2008 and 2007 were ¥1,023 million (US \$10,234 thousand) and ¥912 million, respectively.

Note: There was no research and development expenses included in cost of sales for the year ended March 31, 2008.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Cash and time deposits | ¥ 39,591 | ¥ 47,385 | \$ 395,905 |
| Short-term investments | 15,000 | 3,000 | 150,000 |
| Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition | (116) | (74) | (1,159) |
| Cash and cash equivalents | ¥ 54,475 | ¥ 50,311 | \$ 544,746 |

Note: Negotiable deposits were included in "Cash and time deposits" in the previous fiscal year. However, from the fiscal year, negotiable deposits are now treated as marketable securities, in accordance with "Practical Guidelines on Accounting Standards for Financial Instruments (JICPA Accounting Practice Committee Statement No.14, revised July 4, 2007).

The balance of negotiable deposit for the years ended March 31, 2008 and 2007 were ¥15,000 million (US \$150,000 thousand) and ¥8,000 million.

12. SHAREHOLDERS' EQUITY

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code.

The Law provides that an amount equivalent to 10% of cash dividends must be 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 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, 2008 and 2007, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US \$28,571 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 Law.

13. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2008 and 2007 were ¥4,706 million (US \$47,063 thousand) and ¥4,618 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 |
|-----------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥ 12,199 | ¥ 11,894 | \$ 121,988 |
| Machinery and equipment | 6,327 | 6,334 | 63,266 |
| Other | 147 | 171 | 1,466 |
| Accumulated depreciation | (9,051) | (8,028) | (90,511) |
| Accumulated impairment loss | (1) | (4) | (5) |
| | ¥ 9,620 | ¥ 10,367 | \$ 96,204 |

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Depreciation | ¥ 4,557 | ¥ 4,466 | \$ 45,568 |
| Interest expenses | 150 | 152 | 1,495 |

Depreciation costs are calculated based on the straight-line 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, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Current obligation | ¥ 4,100 | ¥ 4,091 | \$ 41,003 |
| Long-term obligation | 5,629 | 6,380 | 56,289 |
| Present value of lease payments | ¥ 9,729 | ¥ 10,471 | \$ 97,292 |
| Impairment loss on leased assets | ¥ 0 | ¥ 1 | \$ 2 |

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2008 and 2007 were ¥118 million (US \$1,182 thousand) and ¥118 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, 2008 and 2007 comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|-------|---------------------------|
| | 2008 | 2007 | 2008 |
| Machinery and equipment | ¥ 647 | ¥ 466 | \$ 6,470 |
| Other | 25 | 25 | 254 |
| Accumulated depreciation | (262) | (235) | (2,620) |
| | ¥ 410 | ¥ 256 | \$ 4,104 |

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------|-----------------|-------|---------------------------|
| | 2008 | 2007 | 2008 |
| Depreciation | ¥ 102 | ¥ 104 | \$ 1,025 |
| Interest expenses | 17 | 14 | 168 |

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, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------|-----------------|-------|---------------------------|
| | 2008 | 2007 | 2008 |
| Current obligation | ¥ 101 | ¥ 86 | \$ 1,008 |
| Long-term obligation | 304 | 166 | 3,041 |
| Present value of lease receipts | ¥ 405 | ¥ 252 | \$ 4,049 |

14. CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2008 and 2007, for loans guaranteed amounted to ¥20,372 million (US \$203,723 thousand) and ¥21,800 million, and for notes discounted and endorsed in the ordinary course of business amounted to ¥277 million (US \$2,766 thousand) and ¥159 million, respectively.

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Guarantee on loans from financial institutions | | | |
| PT. Kutai Timber Indonesia | ¥ — | ¥ 2,008 | \$ — |
| PT. AST Indonesia | 200 | 236 | 2,004 |
| Paragon Wood Product (Dalian) Co., Ltd. | — | 57 | — |
| Purchasers with housing loans applied | 19,961 | 19,276 | 199,609 |
| Others | 0 | 0 | 0 |
| Guarantee on rent payment | | | |
| Sumikyo Co. Ltd. | 211 | 223 | 2,110 |
| | ¥ 20,372 | ¥ 21,800 | \$ 203,723 |

15. DERIVATIVES AND HEDGING ACTIVITIES

The Companies enter derivative contracts as needed in relation to normal foreign currency denominated transactions, and to manage funds within a limited scope. The Companies enter into foreign exchange forward contracts, foreign currency swaps and interest rate swaps. Foreign exchange forward contracts and foreign currency swaps are utilized to hedge currency risk exposure. Interest rate swaps are utilized to hedge against possible future changes in interest rates on borrowings. Some derivative contracts are entered into to manage funds.

Foreign exchange forward contracts and foreign currency swaps carry risks related to changes in foreign exchange markets. Interest rate swaps carry risks related to changes in interest rate markets. The Companies believe that credit risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

With these risks in mind, transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

Hedge accounting is used for derivative transactions.

- (1) Hedge accounting method: Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions
- (2) Hedging method: Foreign exchange forward contracts are utilized for foreign exchange risks
- (3) Scope of hedging: Certain transactions, including planned transactions, in accordance with policies laid out in management regulations
- (4) Hedge effectiveness evaluation method: The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments; therefore, effectiveness evaluation is not carried out.

16. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLANS

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

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

Retirement benefits are calculated based on the 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 employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Projected benefit obligation | ¥ (51,303) | ¥ (49,376) | \$ (513,026) |
| Fair value of plan assets | 36,239 | 36,992 | 362,395 |
| Unrecognized actuarial loss | — | — | — |
| Unrecognized prior service cost | — | — | — |
| Prepaid pension cost | — | — | — |
| Net liability for retirement benefits | ¥ (15,063) | ¥ (12,383) | \$ (150,631) |

The components of net periodic benefit costs for the year ended March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Service cost | ¥ 3,249 | ¥ 3,140 | \$ 32,487 |
| Interest cost | 934 | 863 | 9,342 |
| Expected return on plan assets | (1,329) | (1,156) | (13,287) |
| Recognized actuarial loss | 4,533 | (1,899) | 45,334 |
| Expense of changing accounting method | 166 | — | 1,661 |
| Net periodic benefit costs | ¥ 7,554 | ¥ 948 | \$ 75,537 |

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

Assumptions used for the year ended March 31, 2008 and 2007 were set forth as follows:

| | 2008 | 2007 |
|---|-------|-------|
| Discount rate | 2.0% | 2.0% |
| Expected rate of return on plan assets | 3.7% | 3.7% |
| 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, insurance agent business and other

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

| YEAR ENDED MARCH 31, 2008 | Millions of yen | | | | | Consolidated |
|--|-------------------------------|-----------|---------|-----------|--------------------------------|--------------|
| | Timber and Building Materials | Housing | Other | Total | Elimination and / or Corporate | |
| Sales and contract revenues: | | | | | | |
| Unaffiliated customers | ¥ 450,889 | ¥ 406,862 | ¥ 3,605 | ¥ 861,357 | ¥ — | ¥ 861,357 |
| Intersegment transfers | 20,056 | 824 | 12,129 | 33,009 | (33,009) | — |
| Total | 470,945 | 407,687 | 15,734 | 894,366 | (33,009) | 861,357 |
| Operating expenses | 467,615 | 398,890 | 14,765 | 881,270 | (27,149) | 854,121 |
| Operating income | ¥ 3,330 | ¥ 8,797 | ¥ 969 | ¥ 13,096 | ¥ (5,860) | ¥ 7,235 |
| Identifiable assets, depreciation and capital investment: | | | | | | |
| Identifiable assets | ¥ 219,251 | ¥ 129,440 | ¥ 9,071 | ¥ 357,762 | ¥ 92,968 | ¥ 450,730 |
| Depreciation and amortization | 3,493 | 2,492 | 786 | 6,772 | 486 | 7,258 |
| Capital investment | 4,834 | 5,023 | 886 | 10,743 | 752 | 11,494 |

| YEAR ENDED MARCH 31, 2007 | Millions of yen | | | | | Consolidated |
|--|-------------------------------|-----------|---------|-----------|--------------------------------|--------------|
| | Timber and Building Materials | Housing | Other | Total | Elimination and / or Corporate | |
| 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 |

| YEAR ENDED MARCH 31, 2008 | Thousands of U.S. dollars | | | | | Consolidated |
|---|-------------------------------|--------------|-----------|--------------|--------------------------------|--------------|
| | Timber and Building Materials | Housing | Other | Total | Elimination and / or Corporate | |
| Sales and contract revenues: | | | | | | |
| Unaffiliated customers | \$ 4,508,892 | \$ 4,068,623 | \$ 36,050 | \$ 8,613,565 | \$ — | \$ 8,613,565 |
| Intersegment transfers | 200,560 | 8,244 | 121,290 | 330,094 | (330,094) | — |
| Total | 4,709,452 | 4,076,867 | 157,340 | 8,943,659 | (330,094) | 8,613,565 |
| Operating expenses | 4,676,153 | 3,988,896 | 147,651 | 8,812,700 | (271,489) | 8,541,211 |
| Operating income | \$ 33,299 | \$ 87,971 | \$ 9,689 | \$ 130,959 | \$ (58,605) | \$ 72,354 |
| Identifiable assets, depreciation and capital investment: | | | | | | |
| Identifiable assets | \$ 2,192,513 | \$ 1,294,402 | \$ 90,710 | \$ 3,577,625 | \$ 929,675 | \$ 4,507,300 |
| Depreciation and amortization | 34,934 | 24,920 | 7,865 | 67,719 | 4,863 | 72,582 |
| Capital investment | 48,340 | 50,232 | 8,855 | 107,427 | 7,517 | 114,944 |

b) Geographical segment information—

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

| YEAR ENDED MARCH 31, 2008 | Millions of yen | | | Elimination and / or Corporate | Consolidated |
|---|-----------------|----------|-----------|--------------------------------|--------------|
| | Domestic | Other | Total | | |
| Sales and contract revenues: | | | | | |
| Unaffiliated customers | ¥ 838,115 | ¥ 23,242 | ¥ 861,357 | ¥ — | ¥ 861,357 |
| Intersegment transfers | 2,161 | 10,767 | 12,928 | (12,928) | — |
| Total | 840,276 | 34,009 | 874,285 | (12,928) | 861,357 |
| Operating expenses | 830,358 | 31,400 | 861,758 | (7,637) | 854,121 |
| Operating income | ¥ 9,918 | ¥ 2,609 | ¥ 12,527 | ¥ (5,292) | ¥ 7,235 |
| Identifiable assets, depreciation and capital investment: | | | | | |
| Identifiable assets | ¥ 315,034 | ¥ 51,838 | ¥ 366,872 | ¥ 83,858 | ¥ 450,730 |

| YEAR ENDED MARCH 31, 2007 | Millions of yen | | | Elimination and / or Corporate | Consolidated |
|---|-----------------|----------|-----------|--------------------------------|--------------|
| | Domestic | Other | Total | | |
| 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, 2008 | Thousands of U.S. dollars | | | | |
|---|---------------------------|------------|--------------|--------------------------------|--------------|
| | Domestic | Other | Total | Elimination and / or Corporate | Consolidated |
| Sales and contract revenues: | | | | | |
| Unaffiliated customers | \$ 8,381,149 | \$ 232,416 | \$ 8,613,565 | \$ — | \$ 8,613,565 |
| Intersegment transfers | 21,611 | 107,671 | 129,282 | (129,282) | — |
| Total | 8,402,760 | 340,087 | 8,742,847 | (129,282) | 8,613,565 |
| Operating expenses | 8,303,578 | 313,999 | 8,617,577 | (76,366) | 8,541,211 |
| Operating income | \$ 99,182 | \$ 26,088 | \$ 125,270 | \$ (52,916) | \$ 72,354 |
| Identifiable assets, depreciation and capital investment: | | | | | |
| Identifiable assets | \$ 3,150,342 | \$ 518,379 | \$ 3,668,721 | \$ 838,579 | \$ 4,507,300 |

c) Overseas sales information—

As the total overseas sales were less than 10% of consolidated net sales, overseas sales information has been omitted.

18. NET INCOME PER SHARE

The computation of net income per share for the years ended March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Numerator for net income per share: | | | |
| Net Income | ¥ 1,115 | ¥ 11,954 | \$ 11,150 |
| Income not available to common stockholders | — | — | — |
| Income available to common stockholders | 1,115 | 11,954 | 11,150 |
| Denominator for net income per share: | | | |
| Weighted average number of shares issued | 177,190,006 | 177,287,939 | |

The diluted net income per share for the years ended March 31, 2008 and 2007 were not presented because there were no shares with dilutive effect.

19. SUBSEQUENT EVENT

The Board of Directors of the Company resolved on June 9, 2008 that Sumitomo Forestry Two-By-Four Homes Co., Ltd., a wholly-owned subsidiary of the Company ("Two-by-Four Homes"), be dissolved as of September 30, 2008 and that its Two-by-Four housing business be transferred to the Company.

(1) Scheduled Dissolution Date

September 30, 2008

(2) Financial Data of Two-By-Four Homes as of March 31, 2008

Total assets ¥ 3,158 million

Total liabilities ¥ 4,581 million

Net assets ¥ (1,423) million

The effect of the dissolution on operating profit for fiscal year 2008 is immaterial. But extraordinary loss as a result of the dissolution is expected to incur at 0.6 billion yen due to the equipment disposal and personnel reduction.

REPORT OF INDEPENDENT AUDITORS



■ Certified Public Accountants

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C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100

Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of operations, 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.

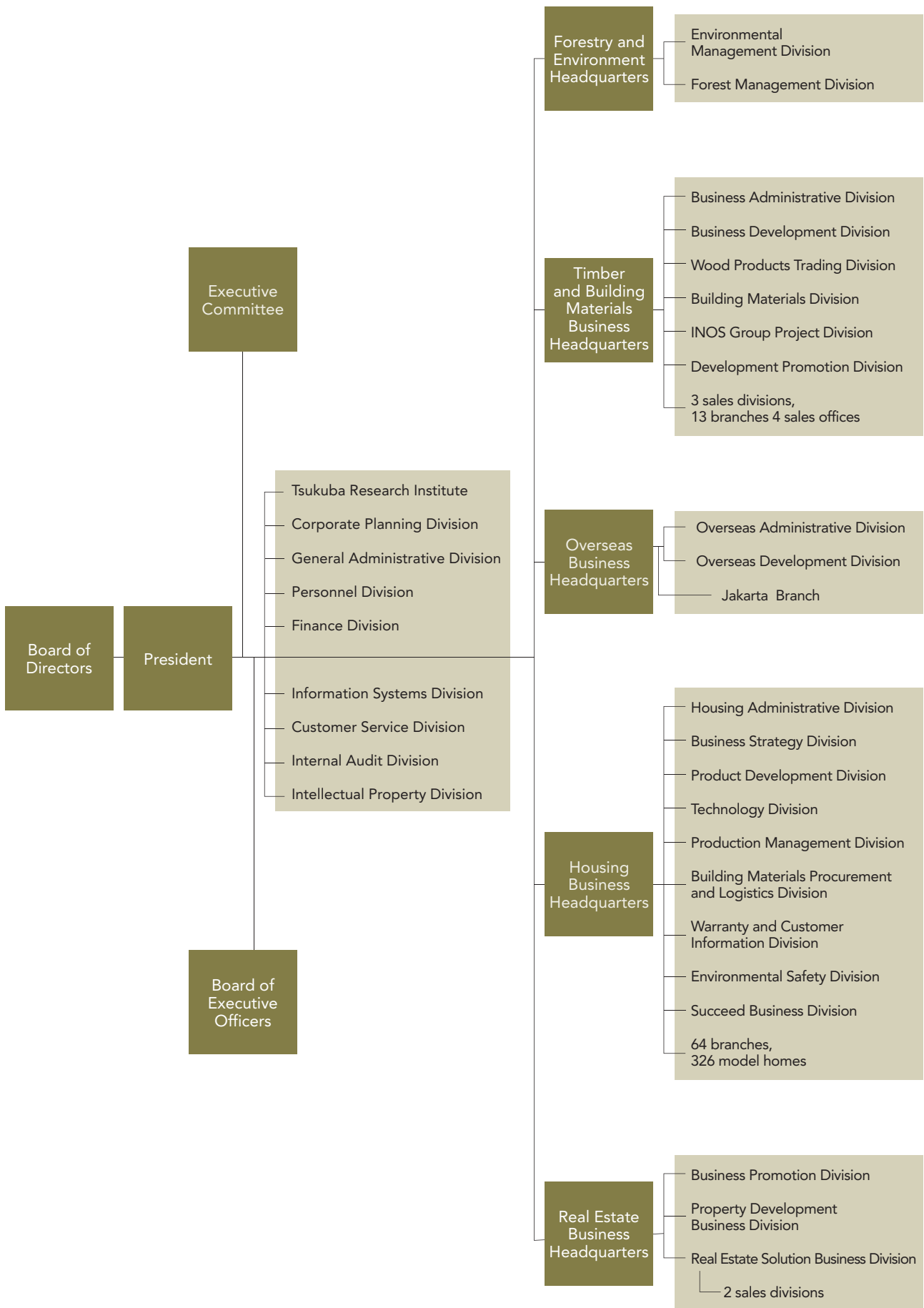
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young Shin Nihon

June 20, 2008

ORGANIZATION CHART (As of April 1, 2008)



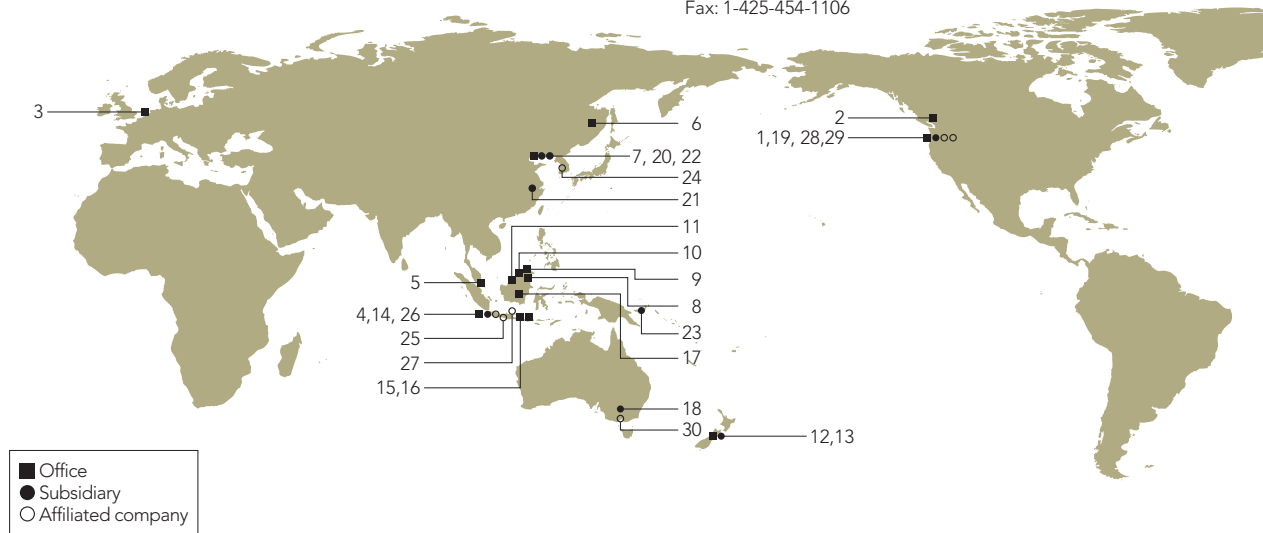
OVERSEAS NETWORK (As of September, 2008)

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8. Tawau Office
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Summitmas II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel: 62-21-2521260
Fax: 62-21-5200313
E-mail: ktijkt@cbn.net.id
15. Probolinggo Factory
P. O. Box. 101 Probolinggo,
JL. Tanjung Tembaga Baru,
Pelabuhan, Probolinggo 67201, Jawa
Timur, Indonesia
Tel: 62-335-422412
Fax: 62-335-421669
E-mail: pr@kti.co.id
16. Surabaya Branch
P. O. Box. 306, Surabaya, JL. Kusuma
Bangsa No. 19, Surabaya 60272,
Jawa Timur, Indonesia
Tel: 62-31-5343835
Fax: 62-31-5343838
E-mail: ktisby@kti.co.id
17. Samarinda Branch
JL. Manggis No.48/40
Samarinda 75123,
Kalimantan Timur, Indonesia
Tel: 62-541-741966/737926/748116
Fax: 62-541-741967
18. Alpine MDF Industries Pty Ltd.
Lot-1 Crosler Lane, Wangaratta
VIC 3677, Australia
Tel: 61-3-5721-3522
Fax: 61-3-5721-3588
Email: enquiries@alpinemdf.com.au
19. Pacific Wood Products, L.L.C.
8805 148th Avenue NE,
Redmond, Washington 98052, U.S.A.
Tel: 1-425-885-1777
Fax: 1-425-885-0057
E-mail: sfs@sumiforsea.com
20. Paragon Wood Product
(Dalian) Co., Ltd.
Rm 417, International Trade Center,
#3 Haitian Road, Free Trade Zone,
Dalian, 116600, PRC
Tel: 86-411-87332208/87332218
Fax: 86-411-87332318
E-mail: paragonkenji@aol.com
21. Paragon Wood Product
(Shanghai) Co., Ltd.
D 902, 9th Floor, Pufa Plaza Building D,
1759 North Zhongshan Road,
Shanghai, 200061, PRC
Tel: 86-21-61405828
Fax: 86-21-61405826
E-mail: paragonkenji@aol.com
22. Dalian Sumirin Information
Technology Service Co., Ltd.
Senmao Building 16th Floor,
147 Zhongshan Road,
Xigang District,
Dalian, 116011, PRC
Tel: 86-411-8365-8755/8757
Fax: 86-411-8365-8756
E-mail: sfdln@sfts-cn.com
23. Open Bay Timber Limited
P. O. Box 66, Kokopo, East New
Britain Province, Papua New Guinea
Lot1, Section 40, Tobaining Road,
Kenabot, Kokopo, East New Britain
Province, Papua New Guinea
Tel: 675-982-9827
Fax: 675-982-8906

AFFILIATES

24. Dongwha SFC Housing Co., Ltd.
Dongwha Bldg. 192-4,
Nonhyeon-Dong,
Gangnam-Gu, Seoul,
135-010, Korea
Tel: 82-2-3218-8970
Fax: 82-2-3445-2891
25. PT. Rimba Partikel Indonesia
P. O. Box. 127 KENDAL Desa.
Mororejo, Kaliwungu, Kendal,
Jawa Tengah 51372, Indonesia
Tel: 62-24-8662990
Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id
26. Jakarta Office
Gedung Idola Tunggal Slipi,
JL. Letjen S.Parman Kav.67,
Jakarta 11410, Indonesia
Tel: 62-21-5321637
Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id
27. PT. AST Indonesia
KITW Technopark Blok A-01, JL.
Raya Semarang-Kendal KM.12,
Semarang 50152, Indonesia
Tel: 62-24-8664800
Fax: 62-24-8664801
E-mail: asti@ast.co.id
28. Bennett-SFS, L.L.C.
c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004,
U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
E-mail: sfs@sumiforsea.com
29. Cascadia Resort Communities, LLC
c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004,
U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
30. Henley-SFC Housing Pty Ltd
395 Ferntree Gully Road, Mt.
Waverley VIC 3149 Australia
Tel: 61-3-9574-5333
Fax: 61-3-8588-7093



STOCK INFORMATION (As of March 31, 2008)

Stock Exchange Listings: Tokyo, Osaka

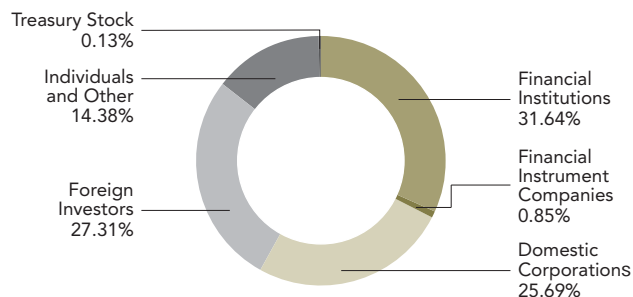
Common Stock Authorized: 400,000,000 shares

Issued: 177,410,239 shares

Number of Shareholders: 12,903

General Meeting of Shareholders: June

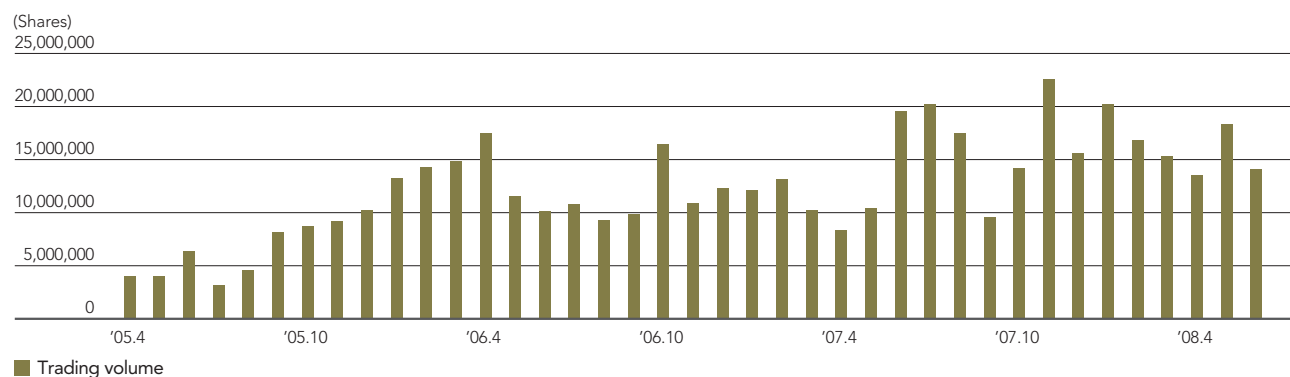
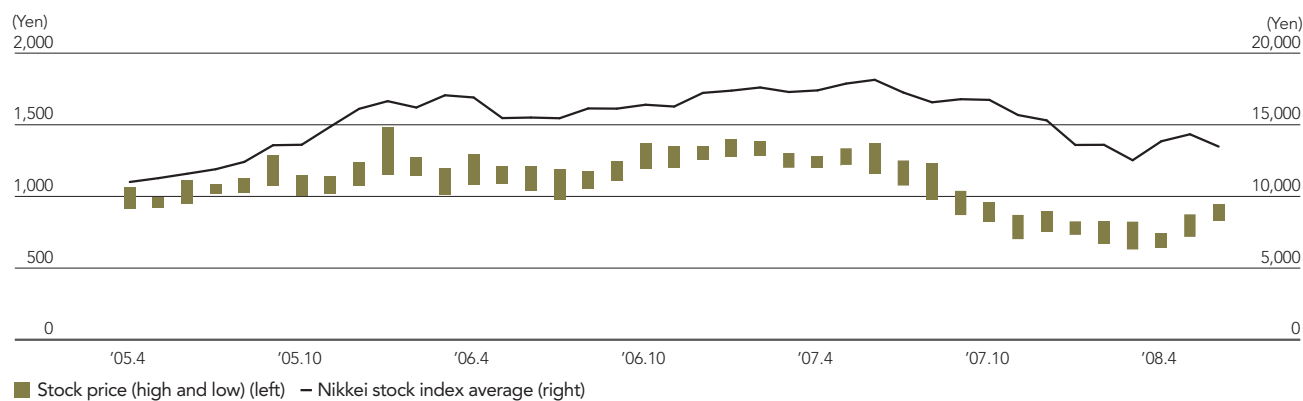
Breakdown of Shareholders:



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) | 7,599 | 4.28 |
| Japan Trustee Service Bank, Ltd. (trust account) | 6,234 | 3.51 |
| The Iyo Bank, Ltd. | 5,850 | 3.30 |
| Sumitomo Corporation | 4,383 | 2.47 |
| Sumitomo Life Insurance Company | 4,227 | 2.38 |
| The Hyakujushi Bank, Ltd. | 4,198 | 2.37 |
| Sumitomo Mitsui Banking Corporation | 4,136 | 2.33 |
| Goldman Sachs and Company Regular Account (Standing proxy: Goldman Sachs Japan Co., Ltd.) | 3,703 | 2.09 |
| The Sumitomo Trust and Banking Co., Ltd. | 3,408 | 1.92 |

Stock Price and Trading Volume (Osaka Securities Exchange):



CORPORATE DATA (As of March 31, 2008)

| | |
|-------------------------------------|---|
| Company Name: | Sumitomo Forestry Co., Ltd. |
| Founded: | 1691 |
| Incorporated: | 1948 |
| Paid-in Capital: | ¥27,672 million |
| Head Office: | Marunouchi Trust Tower North 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan Tel: 81-3-6730-3500 Fax: 81-3-6730-3504 |
| Consolidated Subsidiaries: | 51 (Overseas 16) |
| Associated Companies: | 7 (Overseas 5) |
| Number of Employees (Consolidated): | 12,541 |
| 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 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan |

For further information, please contact:

Sumitomo Forestry Co., Ltd.
Corporate Planning Division
Tel: 81-3-6730-3506 Fax: 81-3-6730-3507



Marunouchi Trust Tower North, 1-8-1, Marunouchi,
Chiyoda-ku, Tokyo 100-8270, Japan
Tel: 81-3-6730-3500 Fax: 81-3-6730-3504
URL: <http://sfc.jp/english/>