

Financial Section

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* In this section, segment information is reported according to the old segment classification for fiscal 2009.

Eleven-Year Summary

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

	Millions of yen			
	2010	2009	2008	2007
Operating results:				
Net sales	¥723,923	¥823,810	¥861,357	¥911,674
Timber and Building Materials Business*1	361,812	433,648	470,945	520,103
Housing and Housing-Related Businesses*1	375,658	406,351	407,687	407,780
Other Businesses	15,871	16,054	15,734	14,597
Elimination and/or corporate	(29,419)	(32,243)	(33,009)	(30,806)
Gross profit	124,269	133,493	135,277	141,117
Selling, general and administrative expenses	114,522	126,656	128,041	120,711
Operating income	9,747	6,837	7,235	20,405
Timber and Building Materials Business*1	913	2,054	3,330	7,967
Housing and Housing-Related Businesses*1	13,744	8,447	8,797	16,586
Other Businesses	913	936	969	903
Elimination and/or corporate	(5,823)	(4,599)	(5,860)	(5,051)
Recurring income*2	9,465	6,160	7,659	21,259
Net income (loss)	2,377	1,028	1,115	11,954

Financial position:				
Total assets	¥469,738	¥427,738	¥450,730	¥500,136
Working capital*3	88,338	81,700	64,156	76,453
Interest-bearing debt	66,786	49,127	25,816	25,739
Total net assets*4	162,930	156,192	173,089	188,855

Cash flows:				
Cash flows from operating activities	¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084
Cash flows from investment activities	(19,117)	(29,062)	(17,587)	(7,102)
Cash flows from financing activities	11,546	24,196	(4,262)	665
Cash and cash equivalents at the end of the year	71,662	40,730	54,475	50,311

Capital investment:				
Tangible fixed assets*5	¥ 10,635	¥ 24,087	¥ 9,578	¥ 6,724
Software	1,540	1,500	1,691	1,581
Others	417	651	225	721
Total	12,592	26,238	11,494	9,026
Depreciation and amortization	8,502	8,477	7,258	6,476

	Yen			
Per share data:				
Net income (loss)	¥ 13.4	¥ 5.8	¥ 6.3	¥ 67.4
Net assets	917.8	880.9	976.0	1,059.2
Cash dividends	15.00	15.00	15.00	15.00

	%			
Financial ratios:				
Gross profit margin	17.2	16.2	15.7	15.5
Operating income margin	1.3	0.8	0.8	2.2
Recurring income margin	1.3	0.7	0.9	2.3
Return on assets (ROA)*6	2.1	1.4	1.6	4.4
Return on equity (ROE)*6	1.5	0.6	0.6	6.6
Equity ratio	34.6	36.5	38.4	37.5
Interest-bearing debt ratio*7	29.1	23.9	13.0	12.1
Current ratio	140.3	141.6	127.6	129.3
Interest coverage ratio [times]	6.8	4.5	4.5	11.2

*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, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.

*3. Working capital = Current assets – Current liabilities

Millions of yen

2006	2005	2004	2003	2002	2001	2000
¥791,128	¥723,193	¥673,779	¥645,100	¥644,730	¥682,375	¥699,594
412,182	320,255	293,220	283,517	270,856	279,811	340,988
393,868	418,313	393,616	370,421	381,978	405,150	370,692
13,549	13,185	12,350	17,882	18,050	16,978	15,481
(28,471)	(28,560)	(25,408)	(26,721)	(26,154)	(19,565)	(27,568)
127,853	125,582	120,778	109,631	109,437	118,064	112,269
112,407	107,116	103,201	100,858	106,397	102,065	98,720
15,446	18,466	17,577	8,772	3,040	15,999	13,549
2,806	4,615	3,813	2,238	1,882	5,128	14,770
16,370	17,530	17,150	9,920	4,961	16,631	5,141
841	738	644	415	579	519	569
(4,571)	(4,418)	(4,030)	(3,802)	(4,384)	(6,279)	(6,933)
16,800	18,692	17,074	9,721	3,731	16,908	12,541
10,842	8,014	9,870	(15,439)	465	6,994	5,708
¥464,193	¥370,684	¥369,755	¥357,322	¥365,531	¥371,102	¥360,935
68,037	67,579	66,377	60,260	60,477	61,319	68,892
22,067	15,580	19,929	16,497	18,124	24,517	35,720
175,206	152,500	146,269	129,727	147,440	150,979	144,914
¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332	¥ 3,468	¥ (3,281)
(8,998)	(12,895)	(7,646)	2,026	(16,439)	(1,960)	(3,330)
(14,039)	(7,087)	(735)	(8,171)	(9,716)	(13,873)	(5,351)
49,628	55,928	69,312	52,029	38,873	47,476	59,916
¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705	¥ 4,448	¥ 4,373
1,857	1,673	1,468	2,077	2,194	1,889	1,264
454	549	883	283	225	252	303
10,443	9,237	6,392	5,123	10,124	6,590	5,941
6,403	6,452	6,447	5,985	5,289	4,551	4,756
Yen						
¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6	¥ 39.6	¥ 32.4
996.0	866.5	830.5	736.4	835.1	854.9	821.6
13.00	13.00	13.00	10.00	10.00	10.00	10.00
%						
16.2	17.4	17.9	17.0	17.0	17.3	16.0
2.0	2.6	2.6	1.4	0.5	2.3	1.9
2.1	2.6	2.5	1.5	0.6	2.5	1.8
4.0	5.0	4.7	2.7	1.0	4.6	3.5
6.6	5.4	7.2	(11.1)	0.3	4.7	4.0
37.7	41.1	39.6	36.3	40.3	40.7	40.1
11.2	9.3	12.0	11.3	10.9	14.0	19.8
129.3	137.4	135.7	132.6	131.8	131.1	137.7
10.8	18.6	21.9	18.3	7.8	22.6	18.6

*4. Total net assets are calculated 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. As of March 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant, and equipment.

*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

Market Overview

In the fiscal year ended March 2010, stimulus measures put in place by countries throughout the world fueled a global economic recovery that set the stage for increases in business exports and production activity, and helped to put the Japanese economy on a moderate recovery track. Corporate earnings and capital investment, however, remained at low levels. And with the added impact of fears that the US and Europe would experience new downturns, together with concerns about persistent deflation and other forms of ongoing downward pressure, uncertainties about the future continued to plague Japan's economy.

The housing industry suffered from lessened willingness to invest in housing, brought on by factors like the rapid deterioration of employment conditions and declines in income. That, in turn, caused new housing starts to fall by a sharp 25.4% year-on-year to 775,000 units. Owner-occupied housing starts, which are deeply related to the Group's businesses, began to rise in November 2009 with the help of housing loan tax benefits and other policy actions, but were unable to make up the significant first-half loss and ended the year at only 287,000 units, down 7.6%. Meanwhile, in the timber and building materials industry, the adverse market conditions of the previous year continued due to the major decline in new housing starts.

Consolidated Operating Results

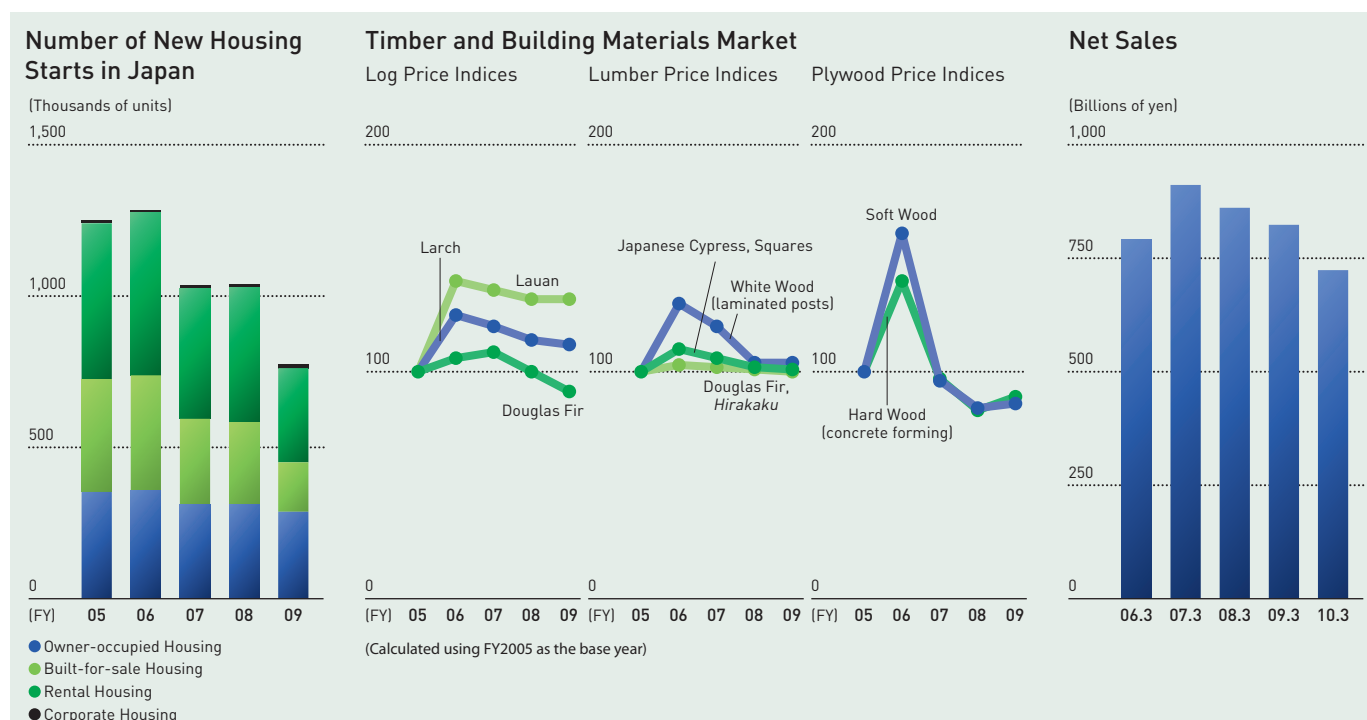
1. Net Sales and Orders Received

Net sales fell by ¥99,887 million to ¥723,923 million, a decrease of 12.1% from the previous year. The primary causes for this decline were: 1) Weak sales volume in the timber and building materials distribution, and building materials manufacturing businesses brought on by the global recession and drop in domestic new housing starts; and 2) A major decline in unit sales of custom-built detached housing.

The value of orders received for custom-built detached housing came to ¥265,203 million, down 1.4% from the previous year, while the number of orders received totaled 8,593 units, down 1.3%. Decreased desire to purchase houses, due to the impact of the economic downturn, caused a slide in first-half orders, but expansion of an attractively priced product line, the offering of homes with solar power systems, and the effect of government assistance for housing purchases led to a steady increase in second-half orders.

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses came to ¥114,522 million, 9.6% less than for the previous year. The savings of ¥12,134 million resulted from factors like continuation of the comprehensive Group-wide expense reduction efforts begun last year and lower personnel expenses resulting from an actuarial difference in accounting for retirement benefits obligations, which was related to the recovery in stock prices and other factors.



Operating Income of Main Subsidiaries

Timber and Building Materials Business

	Millions of yen		
Years ended March 31	2009	2010	2011 Expectation
Sumitomo Forestry Crest Co., Ltd.	(188)	51	520
Years ended December 31	2008	2009	2010 Expectation
Overseas Subsidiaries* ¹			
PT. Kutai Timber Indonesia (Indonesia)	263	(404)	220
Alpine MDF Industries Pty Ltd. (Australia)	95	(45)	210
Nelson Pine Industries Ltd. (New Zealand)	1,485	600	1,150

Housing and Housing-Related Businesses

	Millions of yen		
Years ended March 31	2009	2010	2011 Expectation
Sumitomo Forestry Residential Co., Ltd.	355	241	390
Sumitomo Forestry Home Engineering Co., Ltd.	575	813	890
Sumitomo Forestry Home Service Co., Ltd.	(545)	9	150
Sumitomo Forestry Landscaping Co., Ltd.	217	408	160
Sumitomo Forestry Home Tech Co., Ltd.* ²	727	1,429	1,530

*1. Calculations for overseas subsidiaries have been translated into Japanese yen at the following rates.

FY2008 US\$ = 103.32 / AU\$ = 88.49 / NZ\$ = 74.08

FY2009 US\$ = 93.57 / AU\$ = 74.01 / NZ\$ = 59.35

FY2010 US\$ = 93.00 / AU\$ = 85.00 / NZ\$ = 66.00

*2. Merged with Sumirin Maintenance Co., Ltd. on October 1, 2008.

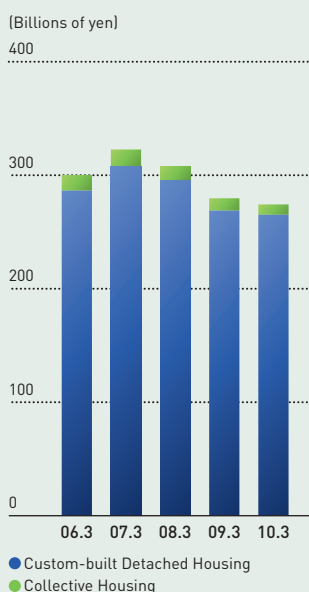
3. Operating Income

Despite a year-on-year decline in overall sales due to lower sales volumes for timber and building materials, and reduced sales of custom-built detached homes, impacts like an actuarial difference in retirement benefit accounting helped to boost operating income 42.6%, or ¥2,910 million, to ¥9,747 million. Without the benefit of the actuarial difference mentioned above, operating income would have been ¥7,383 million, or 37.6% lower than the figure for the previous year.

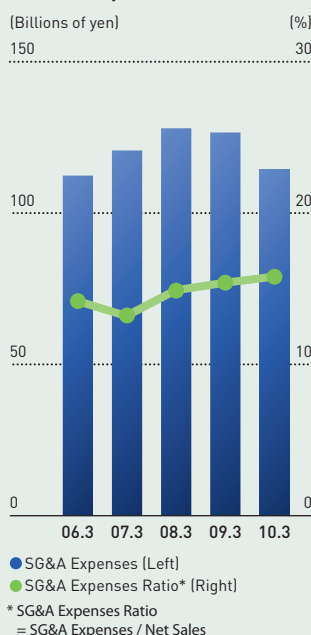
4. Net Income

Net income increased by ¥1,349 million to ¥2,377 million, an improvement of 131.2% compared to the previous year. This is primarily attributable to an increase in operating income, currency translation gains and other increases in other non-operating revenues, and a change in the retirement benefit system, which resulted in an extraordinary gain as a result of a transfer to defined contribution pension. These positive factors outweighed investment losses on equity-method overseas affiliates and extraordinary losses from impairment losses on building material manufacturing facilities owned by a domestic subsidiary. Net income per share came to ¥13.42, an increase of ¥7.62 from the previous year.

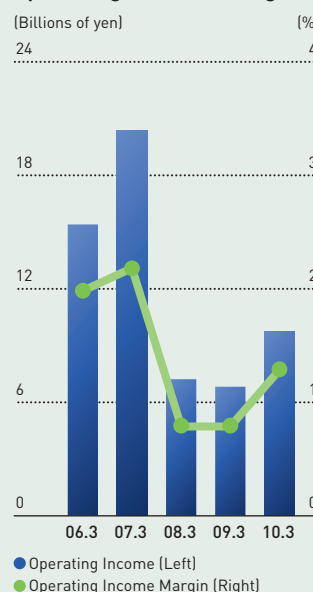
Amount of Orders Received



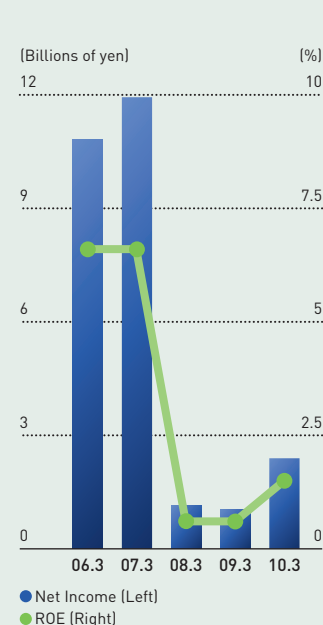
SG&A Expenses and SG&A Expenses Ratio



Operating Income and Operating Income Margin



Net Income and ROE



Segment Performance Highlights

	Millions of yen				
	2006	2007	2008	2009	2010
Net sales					
Timber and Building Materials Business	¥412,182	¥520,103	¥470,945	¥433,648	¥361,812
Housing and Housing-Related Businesses	393,868	407,780	407,687	406,351	375,658
Other Businesses	13,549	14,597	15,734	16,054	15,871
Operating income					
Timber and Building Materials Business	¥ 2,806	¥ 7,967	¥ 3,330	¥ 2,054	¥ 913
Housing and Housing-Related Businesses	16,370	16,586	8,797	8,447	13,744
Other Businesses	841	903	969	936	913
	%				
Operating income margin					
Timber and Building Materials Business	0.7	1.5	0.7	0.5	0.3
Housing and Housing-Related Businesses	4.2	4.1	2.2	2.1	3.7
Other Businesses	6.2	6.2	6.2	5.8	5.8

Note: The sales figures given above include intersegment transactions.

Segment Results

1. Timber and Building Materials Business

Net sales in the timber and building materials business came to ¥344,874 million, 16.7% lower than in the previous year, and operating income totaled ¥913 million, down 55.6%. In the building materials manufacturing business, which is being pursued overseas, sales volume recovered entering the second half, but the domestic timber and building material markets suffered from weak demand throughout the year, making business in this area extremely difficult.

Distribution of Timber and Building Materials

In the face of anemic market conditions for the distribution of timber and building materials, efforts were focused on increasing sales volume, deepening cooperative relationships with key customers, and securing stable earnings by tightly managing inventory, quality, and delivery. In addition, with demand for domestic timber growing on the impact of the government's policy of expanding timber self-sufficiency, Sumitomo Forestry Wood Products Co., Ltd. endeavored to build a timber-harvesting system premised on the expansion of the harvest area and tree-planting operations to secure stable timber supplies. We also commenced sales of *KIKORIN-PLYWOOD*, over 50% of the raw materials for which are certified or plantation timber.

Manufacturing of Building Materials

The domestic manufacturing of building materials responded to lackluster demand by increasing production efficiency and focusing on the manufacturing and sale of products not readily affected by market conditions. The overseas manufacturing of building materials saw an end to the decline in demand that

began in the second half of the previous year and a recovery in sales volume in the second half of the year under review. In Indonesia, PT. Sinar Rimba Pasifik began making wood-based interior decorating materials, while particle board manufacturing got underway in Vietnam. Both initiatives are part of an effort to actively develop overseas business. In the area of environmental initiatives, we began displaying "Carbon Footprint*1" on particle-board manufactured and sold by PT. Rimba Partikel Indonesia, an affiliate, to make visible the greenhouse gas emissions related to every activity from raw material procurement through manufacturing.

Forestry

The forestry business is aiming to achieve low-cost operations based on the long-term perspective of the forest management plan, while also practicing sustainable, environmentally sound management. At the same time, we are working to build new business models to help invigorate the domestic forestry industry. As one example, a project involving our Company-owned forests in Miyazaki Prefecture was registered in the Japan Verified Emission Reduction*2 (J-VER) scheme being promoted by the Ministry of the Environment, and a portion of the credits issued have already been traded. We have also undertaken the unified management of government-owned forests adjacent to our own Company-owned forests and enabled both efficient forest management and the joint sale of Japanese timber. In addition, under a commission by the New Energy and Industrial Technology Development Organization (NEDO), we are working with an equipment manufacturer and university to develop an advanced timber-harvesting machine suited to the difficult, steeply sloping terrain hosting much of Japan's forests.

Housing and Housing-Related Businesses

(FY)		2006	2007	2008	2009	2010
Orders						
Custom-Built Detached Housing	(Millions of yen)	¥286,519	¥308,019	¥295,413	¥268,889	¥265,203
	(Unit)	9,251	9,751	9,301	8,703	8,593
Sales						
Custom-Built Detached Housing	(Millions of yen)	¥290,534	¥296,342	¥296,861	¥294,551	¥264,750
	(Unit)	9,739	9,585	9,408	9,297	8,580
Detached Spec Homes	(Millions of yen)	¥ 1,421	¥ 1,288	¥ 2,718	¥ 3,253	¥ 3,995
	(Unit)	68	60	118	144	183
Totaled Detached Homes	(Millions of yen)	¥291,955	¥297,630	¥299,579	¥297,805	¥268,745
	(Unit)	9,807	9,645	9,526	9,441	8,763

*1. Carbon Footprint

Carbon Footprint marks display the volume of greenhouse gases emitted during the entire life cycle (from raw material procurement through disposal or recycling) of products and services in an easy-to-understand CO₂ equivalent value. In the case of the particleboard mentioned above, a CO₂ value for greenhouse gas emissions from only raw material procurement through manufacturing is displayed.

*2. Japan Verified Emission Reduction (J-VER)

J-VER is a system established in 2008 by Japan's Ministry of the Environment as a way to address the problem of global warming. Under this system, volumes of domestic greenhouse gases reduced or absorbed are certified as voluntary carbon offset credits.

2. Housing and Housing-Related Businesses

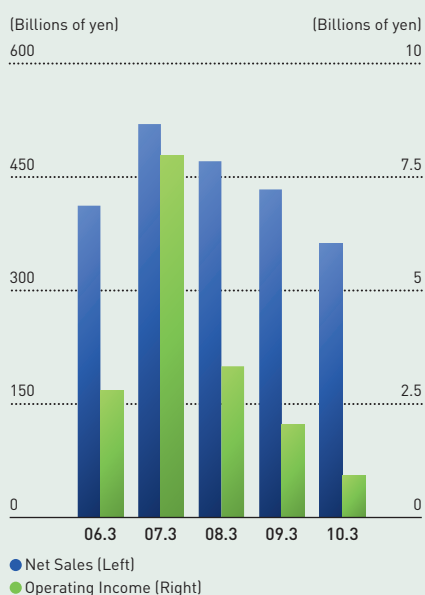
Net sales in the housing and housing-related businesses totaled ¥375,202 million, down 7.6% from the previous year, and operating income came to ¥13,744 million, up 62.7%. In the mainstay custom-built detached housing business, unit sales declined year-on-year due to a dearth of housing starts in the first half. And that,

together with factors like a decline in the housing replacement build rate and the growing importance of younger customers, caused growth in per unit prices to stagnate. Income, on the other hand, was a different story. Here, thorough cost-cutting across the Group combined with strong performances by the renovation and other peripheral businesses to produce a significant increase in operating income compared to the previous year.

New Custom-Built Housing

In the custom-built detached housing business, we re-evaluated the sales organization to improve our business efficiency and market share, and implemented sweeping expense reductions and production cost cuts, to further strengthen our earnings base. We worked to expand sales of houses equipped with solar power systems and established a system for selling these products alongside houses built with the two-by-four construction method, and we took steps like encouraging referrals from customers who

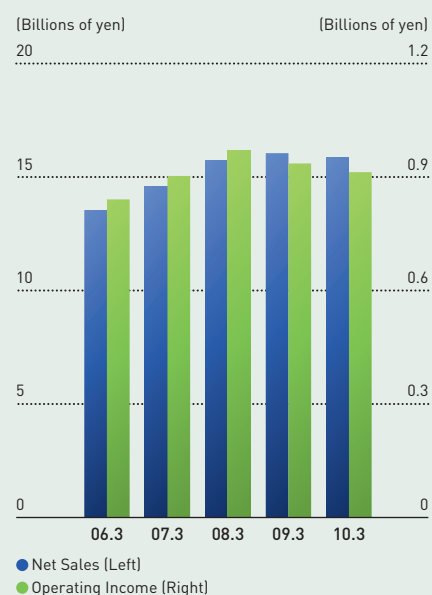
Timber and Building Materials Business Net Sales and Operating Income



Housing and Housing-Related Businesses Net Sales and Operating Income



Other Businesses Net Sales and Operating Income



have taken ownership of their homes, all in an effort to increase orders. In the same vein, we held *Sumai Haku* housing fairs throughout the nation. Matched to the character of local communities, these fairs showcased the latest technology of our homes, and gave visitors a chance to experience the advantages of living in wooden housing. We also offered limited-time access to virtual *Sumai Haku* content on the Web. To address the decline in the reconstruction rate and the growing importance of younger customers, we introduced a new line of wooden custom-built homes we call *Kodachi*. The *Kodachi* product line features homes with high basic functionality and offers 300 plans, including packages of the most popular fixtures and fittings, from which customers can choose to meet any lifestyle. The *Kodachi* product line is a rich offering of value-priced homes primarily targeting first-time buyers. Separately, we also introduced the *BF-Si* line of single and two-story homes, which employs our proprietary Big Frame construction method^{*3}, to enhance our product competitiveness.

In the apartment business, where problems like rising vacancy rates fueled a growing reluctance to undertake apartment management, we responded to market changes by launching the *BF-Maison* line of rental housing, which uses the Big Frame construction method for relatively simple alteration of floorplans and uses.

Real Estate

In the real estate business, we embarked on sales of units in our first condominium project, and focused on reducing vacancy rates at leased properties under management and improving our own inventory of leased properties through sales and purchases,

all to stabilize earnings. In the management of private-pay elderly care facilities, where we offer reliable long-term care services in accordance with our corporate philosophy, we worked to upgrade services in anticipation of business growth by expanding facilities and improving operations.

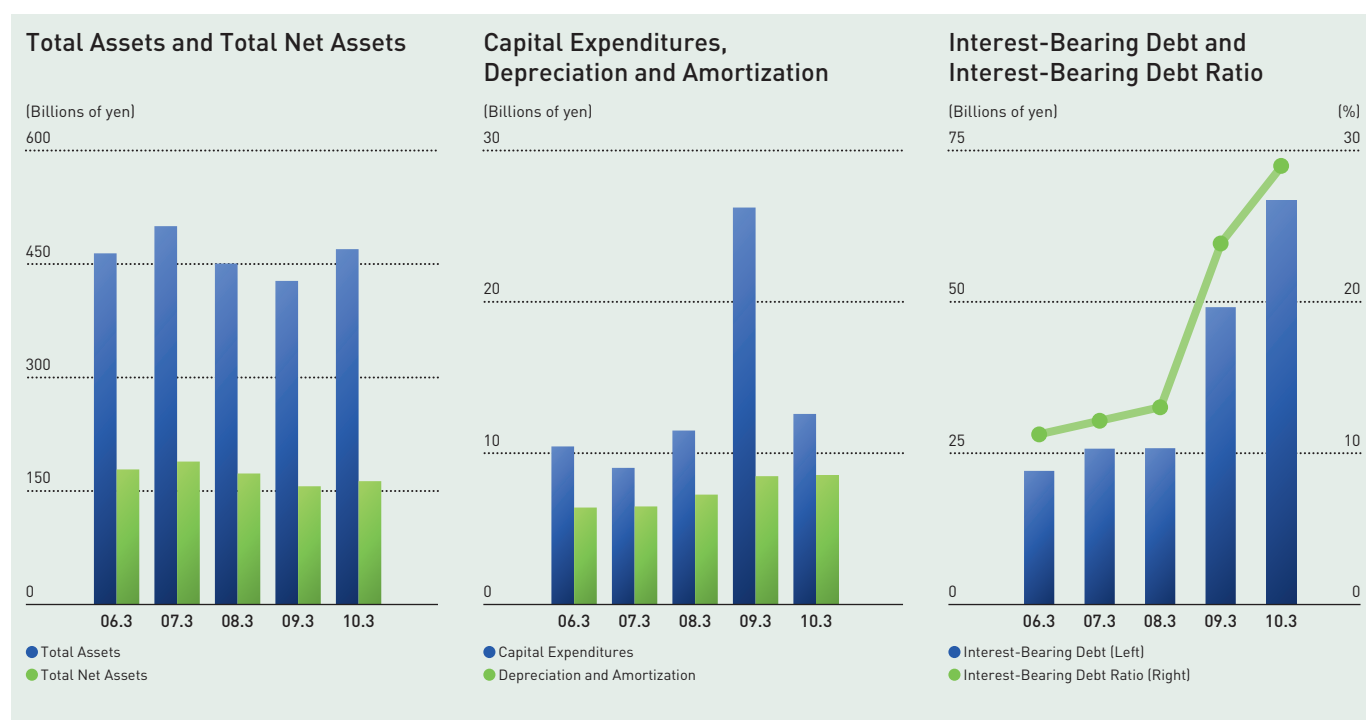
As for the detached spec home business, strong sales of affordable houses supported steady expansion.

Renovation

The renovation business, which is expected to benefit from a growing market, concentrated on strengthening the sales organization through steps like shifting personnel to Sumitomo Forestry Home Tech Co., Ltd. from Sumitomo Forestry Co., Ltd. Here, we also created a system for handling large renovation projects by assigning “Realise Reform Team,” consisting of sales, design, construction, after-sale service, and other members, to work with individual clients. Furthermore, in addition to hosting periodic events like on-site tours, we enhanced our sales channels to enable rapid responses to renovation demand by owners of Sumitomo Forestry homes. As one example, we strengthened ties with the Owners Support Groups established at all Housing Division branches as unified points of contact for Sumitomo Forestry home owners.

^{*3}. Big Frame construction method

The Big Frame construction method was developed by Sumitomo Forestry and was patented as the first wooden beam Rahmen structure in Japan. Requiring no through pillars, the Big Frame construction method provides a high degree of planning freedom, accommodates plans with pillar positions that differ by floor, and makes it easy to design large spaces with few intervening walls.



3. Other Businesses

Net sales and operating income in Other Businesses are primarily attributable to Sumirin Enterprises Co., Ltd., a subsidiary that pursues businesses targeting Sumitomo Forestry home owners. For fiscal 2009, net sales totaled ¥3,847 million, up 2.6%, and operating income came to ¥913 million, down 2.4%.

Financial Position and Cash Flow

1. Financial Position

At the end of March 2010, total assets came to ¥469,738 million, ¥42.0 billion greater than at the end of the previous fiscal year. This increase is mainly attributable to a change in the method for paying trade payables, which increased liquid funds on hand and boosted current assets by ¥29,536 million year-on-year, and to an investment in an Australian housing company that was undertaken as a part of efforts to expand our overseas housing business and increased fixed assets by ¥12,464 million compared to the previous period.

Liabilities increased by ¥35,263 million, compared to the end of the previous fiscal year, to ¥306,808 million. This difference is mainly attributable to increases in trade payables and the issuance of debt, which combined to outweigh a decrease in accrued employees' retirement benefits resulting from a revision in the retirement benefit system.

The issuance of ¥15.0 billion in bonds to provide investment capital for future growth, and other financing activities, caused interest-bearing debt to increase by ¥17,659 million, compared to the previous year, to ¥66,786 million, and the interest-bearing debt ratio to rise to 29.1% from 23.9% at the end of the previous fiscal year. Net assets, reflecting developments like an increase in unrealized gains on available-for-sale securities resulting from the stock market recovery and a reduction in the rate of decrease in foreign currency translation adjustments owing to yen appreciation, increased by ¥6,738 million, compared to the previous fiscal year, to ¥162,930 million. The equity ratio stood at 34.6%.

2. Cash Flow

Net cash flow from operating activities came to ¥37,239 million, which was comprised mainly of ¥10,583 million in income before income taxes and minority interests, and increases in trade payables, due to a change in payment method, and construction payables, due to the concentration of completed construction of custom-built detached homes in March, the final month of the fiscal year. Net cash used for investing activities totaled ¥19,117 million, most of which was used to acquire investment securities and properties for leasing in the real estate business. Net cash flow from financing activities totaled ¥11,546 million, which reflected the issuance of bonds in an amount exceeding dividend payments and long-term debt redemptions.

3. Capital Expenditures

Capital expenditures fell to ¥12,592 million from ¥26,238 million a year ago, a difference of 48%. This decline resulted from the restriction of tangible fixed asset investments to real estate, the expansion of domestic Company-owned forests, and other assets with the most promising investment returns amid difficult business conditions. Investments in tangible fixed assets, therefore, declined 55.8% to ¥10,635 million. Investments in software for housing-related businesses and other purposes came to ¥1,540 million, about what they were the previous year.

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 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 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 prices 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 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 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 impact group results. Price fluctuations for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's business results.

4. Exchange Rate Fluctuations

The Group 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 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 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.

12. Decline in Value of Held Assets

In the event of a decline in the value of assets held by the Group, such as real estate holdings and products, due to marked worsening of market conditions, there is the possibility valuation losses would be booked and of disposal of impaired assets, which may influence the Group's business results and financial position.

13. Provision of Credit to Business Partners

The Group provides credit to business partners in the form of trade receivables, etc., and makes provisions for setting appropriate limits and reserves for credit losses to avoid exposure to credit risk. As these measures do not ensure complete avoidance of exposure to credit risk, the potential exists that exposure to credit risk may influence the Group's business results and financial position.

14. Litigation Risk

As the Group is engaged in a range of business activities in Japan and overseas, there exists the possibility that said activities could be subject to litigation and/or dispute. In the event of these activities becoming subject to litigation, the Group's business results and financial position may be influenced accordingly.

15. Fundraising Risk

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be regulated due to changes in the economic environment or lowering of credit ratings. In this event, the possibility exists of this influencing the Group's business results and financial position.

* Statements in this annual report with respect to matters in the future are forward-looking statements deemed by the Group as of the date of the production of this report.

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
ASSETS			
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 52,714	¥ 23,854	\$ 566,813
Marketable securities (Notes 5, 12, 16)	19,000	17,194	204,301
Receivables —			
Notes and accounts, trade (Notes 7, 16)	107,427	111,057	1,155,125
Loans and other (Note 16)	43,478	43,349	467,500
Inventories —			
Finished goods, logs and lumber (Note 7)	17,230	20,506	185,272
Developed land and housing for sale	26,333	21,593	283,148
Land and housing projects in progress	32,420	30,119	348,597
Deferred tax assets (Note 9)	6,308	6,647	67,828
Other current assets	3,700	4,657	39,785
Allowance for doubtful accounts	(836)	(740)	(8,990)
Total current assets	307,772	278,237	3,309,379
 Property, plant and equipment, at cost less accumulated depreciation :			
Land (Notes 6, 7, 8)	26,692	28,299	287,016
Buildings and structures (Notes 7, 8)	50,928	46,792	547,613
Machinery and equipment (Notes 7, 8)	64,032	56,309	688,516
Timberland (Notes 6, 7)	11,063	10,736	118,958
Construction in progress (Note 7)	439	2,938	4,725
Leased assets	4,541	2,615	48,830
	157,696	147,688	1,695,658
Less accumulated depreciation	(68,826)	(59,542)	(740,069)
Net property, plant and equipment	88,870	88,146	955,589
 Intangible assets, net of amortization:			
Goodwill (Note 8)	309	745	3,322
Other intangible assets	6,328	5,694	68,044
Total intangible assets	6,637	6,439	71,366
 Investments and other assets:			
Investment securities (Notes 5, 7, 16)	51,094	35,072	549,403
Long-term loans and receivables	5,187	10,379	55,778
Deferred tax assets (Note 9)	1,138	1,761	12,242
Prepaid pension cost (Note 18)	1,595	—	17,156
Other assets	9,481	9,457	101,944
Allowance for doubtful accounts	(2,037)	(1,752)	(21,906)
Total investments and other assets	66,459	54,916	714,617
 Total assets	¥469,738	¥427,738	\$5,050,951

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
Current liabilities:			
Payables —			
Notes and accounts, trade (Notes 16, 17)	¥147,582	¥126,947	\$1,586,903
Other	7,098	5,459	76,320
Short-term debt (Note 7)	12,207	9,911	131,260
Current portion of long-term debt (Note 7)	116	708	1,246
Current portion of lease obligation (Note 7)	815	514	8,767
Advances received from customers	31,901	34,800	343,016
Accrued income taxes	2,205	1,307	23,712
Accrued employees' bonuses	7,337	7,452	78,890
Accrued directors and corporate auditors' bonuses	35	39	376
Other current liabilities	10,138	9,400	109,015
Total current liabilities	219,434	196,537	2,359,505
Long-term liabilities:			
Bonds issued (Note 7)	15,000	—	161,290
Long-term debt (Notes 7, 16, 17)	36,008	36,145	387,183
Long-term lease obligation (Note 7)	2,640	1,849	28,384
Deferred tax liabilities (Note 9)	9,358	2,989	100,620
Accrued employees' retirement benefits (Note 18)	5,390	18,414	57,955
Other long-term liabilities	18,979	15,612	204,075
Total long-term liabilities	87,374	75,009	939,507
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13)			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2010 and 177,410,239 shares in 2009	27,672	27,672	297,549
Capital surplus	26,872	26,872	288,943
Retained earnings	105,066	105,346	1,129,745
Treasury stock: 263,750 shares in 2010 and 260,902 shares in 2009	(262)	(260)	(2,821)
Total shareholders' equity	159,348	159,630	1,713,416
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities	5,594	2,359	60,155
Deferred gains or losses on hedges	24	29	260
Foreign currency translation adjustments	(2,378)	(5,961)	(25,568)
Total valuation and translation adjustments	3,241	(3,572)	34,847
Minority interests in consolidated subsidiaries			
Total net assets	342	135	3,676
	162,930	156,192	1,751,939
Total liabilities and net assets	¥469,738	¥427,738	\$5,050,951
Per share of common stock:			
Net assets	¥917.82	¥880.94	\$9.87

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
Net sales:			
Sales	¥395,923	¥462,739	\$4,257,236
Contract revenues	328,000	361,071	3,526,880
Total	723,923	823,810	7,784,116
Cost of sales:			
Cost of sales	361,405	425,981	3,886,070
Cost of contracts completed	238,249	264,336	2,561,820
Total	599,654	690,317	6,447,890
Gross profit	124,269	133,493	1,336,226
Selling, general and administrative expenses (Note 11)	114,522	126,656	1,231,421
Operating income	9,747	6,837	104,805
Other income (expenses):			
Interest and dividends income	1,049	1,408	11,277
Interest expense	(1,162)	(1,363)	(12,497)
Equity in losses of affiliates	(2,244)	(576)	(24,128)
Loss on devaluation of investment securities	(179)	(2,214)	(1,922)
Gain on applying Accounting Standard for Construction Contracts	321	—	3,447
Gain on transition of defined contribution pension	1,714	—	18,433
Amortization of prior service cost	2,068	—	22,237
Loss on devaluation of inventories	—	(421)	—
Loss on liquidation of subsidiaries and affiliates	—	(622)	—
Impairment loss	(2,049)	(532)	(22,030)
Gain on sales of investment securities	173	16	1,865
Head office transfer cost	(255)	—	(2,740)
Litigation settlement	(462)	—	(4,972)
Other gains (losses), net (Note 10)	1,862	(572)	20,019
Total	836	(4,873)	8,989
Income before income taxes and minority interests	10,583	1,964	113,794
Income taxes (Note 9):			
Current	3,001	2,129	32,270
Deferred	5,228	(1,149)	56,218
Total	8,229	979	88,488
Minority interests	(24)	(44)	(253)
Net income	¥ 2,377	¥ 1,028	\$ 25,559

	Yen	U.S. dollars (Note 4)
Per share of common stock:		
Net income (Note 21)	¥13.42	¥ 5.80
Cash dividends	15.00	15.00

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	\$ 297,549
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	\$ 297,549
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,876	\$ 288,944
Changes during the period			
Disposal of treasury stock	(0)	(4)	(1)
Total changes during the period	(0)	(4)	(1)
Balance at the end of current period	¥ 26,872	¥ 26,872	\$ 288,943
Retained earnings			
Balance at the end of previous period	¥105,346	¥107,198	\$1,132,758
Changes in accounting policy change at foreign subsidiaries	—	(222)	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,658)	(28,572)
Net income	2,377	1,028	25,559
Total changes during the period	(280)	(1,629)	(3,013)
Balance at the end of current period	¥105,066	¥105,346	\$1,129,745
Treasury stock at cost			
Balance at the end of previous period	¥ (260)	¥ (249)	\$ (2,800)
Changes during the period			
Purchases of treasury stock	(2)	(23)	(24)
Disposal of treasury stock	0	12	3
Total changes during the period	(2)	(11)	(21)
Balance at the end of current period	¥ (262)	¥ (260)	\$ (2,821)
Total shareholders' equity			
Balance at the end of previous period	¥159,630	¥161,497	\$1,716,451
Changes in accounting policy change at foreign subsidiaries	—	(222)	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,658)	(28,572)
Net income	2,377	1,028	25,559
Purchases of treasury stock	(2)	(23)	(24)
Disposal of treasury stock	0	8	2
Total changes during the period	(282)	(1,644)	(3,035)
Balance at the end of current period	¥159,348	¥159,630	\$1,713,416

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
VALUATION AND TRANSLATION ADJUSTMENTS			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 2,359	¥ 9,085	\$ 25,369
Changes during the period			
Net changes in items other than shareholders' equity	3,235	(6,725)	34,786
Total changes during the period	3,235	(6,725)	34,786
Balance at the end of current period	¥ 5,594	¥ 2,359	\$ 60,155
Deferred gains or losses on hedges			
Balance at the end of previous period	¥ 29	¥ 59	\$ 314
Changes during the period			
Net changes in items other than shareholders' equity	(5)	(30)	(54)
Total changes during the period	(5)	(30)	(54)
Balance at the end of current period	¥ 24	¥ 29	\$ 260
Foreign currency translation adjustments			
Balance at the end of previous period	¥ (5,961)	¥ 2,278	\$ (64,095)
Changes during the period			
Net changes in items other than shareholders' equity	3,583	(8,239)	38,527
Total changes during the period	3,583	(8,239)	38,527
Balance at the end of current period	¥ (2,378)	¥ (5,961)	\$ (25,568)
Minority interests			
Balance at the end of previous period	¥ 135	¥ 169	\$ 1,450
Changes during the period			
Net changes in items other than shareholders' equity	207	(35)	2,226
Total changes during the period	207	(35)	2,226
Balance at the end of current period	¥ 342	¥ 135	\$ 3,676
Total net assets			
Balance at the end of previous period	¥156,192	¥173,089	\$1,679,489
Changes in accounting policy change at foreign subsidiaries	—	(222)	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,658)	(28,572)
Net income	2,377	1,028	25,559
Purchases of treasury stock	(2)	(23)	(24)
Disposal of treasury stock	0	8	2
Net changes in items other than shareholders' equity	7,020	(15,029)	75,485
Total changes during the period	6,738	(16,674)	72,450
Balance at the end of current period	¥162,930	¥156,192	\$1,751,939

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥10,583	¥ 1,964	\$113,794
Adjustments —			
Depreciation and amortization	8,502	8,477	91,423
Impairment loss	2,049	532	22,030
Amortization of goodwill	213	294	2,288
Provision for (reversal of) doubtful accounts	382	524	4,103
Provision for (reversal of) employees' retirement benefits, less payments	(14,672)	3,421	(157,768)
Interest and dividends income	(1,049)	(1,408)	(11,277)
Interest expense	1,162	1,363	12,497
Equity in losses of affiliates	2,244	576	24,128
Losses on devaluation of marketable securities and investment securities	179	2,214	1,922
Losses (gains) on sales of marketable securities and investment securities, net	(173)	(16)	(1,865)
Losses (gains) on disposal of fixed assets, net	214	94	2,299
Change in assets and liabilities:			
Notes and accounts receivable, trade	3,657	7,833	39,320
Inventories	5,842	(9,796)	62,814
Other current assets	(2,947)	5,852	(31,687)
Notes and accounts payable, trade	24,987	(20,628)	268,674
Advances received from customers	(3,010)	(6,441)	(32,362)
Other current liabilities	(49)	481	(525)
Other	153	1,180	1,643
Total	38,265	(3,488)	411,451
Interest and dividends income received	965	1,550	10,376
Interest paid	(1,170)	(1,180)	(12,584)
Income taxes paid, net	(821)	(5,043)	(8,824)
Net cash provided by (used in) operating activities	37,239	(8,161)	400,419
Cash flows from investment activities:			
Proceeds from sales of marketable securities	295	—	3,172
Decrease (increase) in short-term loans receivable	934	(2,183)	10,041
Payments for purchases of fixed assets	(10,400)	(23,925)	(111,831)
Proceeds from sales of fixed assets	2,046	2,978	22,001
Payments for purchases of intangible assets	(1,604)	(2,005)	(17,248)
Payments for purchases of investment securities	(11,104)	(1,628)	(119,394)
Proceeds from sales of investment securities	317	546	3,404
Payments for additional acquisition of stock of consolidated subsidiaries	—	(100)	—
Proceeds from purchase of stock of subsidiary newly consolidated	26	—	277
Payments for long-term loans receivable	(1,017)	(2,277)	(10,937)
Repayments of long-term loans receivable	1,149	163	12,353
Other	242	(632)	2,601
Net cash used in investment activities	(19,117)	(29,062)	(205,561)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	880	1,467	9,461
Payment of lease obligation	(923)	(279)	(9,923)
Proceeds from long-term debt	1,911	29,977	20,551
Repayments of long-term debt	(2,898)	(4,362)	(31,158)
Proceeds from issuance of bonds	15,000	—	161,290
Dividends paid	(2,657)	(2,658)	(28,572)
Other	232	50	2,497
Net cash provided by financing activities	11,546	24,196	124,146
Effect of exchange rate changes on cash and cash equivalents	1,205	(717)	12,960
Net increase (decrease) in cash and cash equivalents	30,873	(13,745)	331,964
Cash and cash equivalents at the beginning of the year	40,730	54,475	437,955
Increase (decrease) in cash and cash equivalents due to change of scope of consolidation	60	—	644
Cash and cash equivalents at the end of the year (Note 12)	¥71,662	¥40,730	\$770,563

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

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 Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No.18)."

In accordance with PITF No.18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

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 IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments 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, amounts 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, 2010, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥1,256 million (US\$13,503 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) and unrecognized prior service cost are amortized in the fiscal year in which they arise.

Effective the year ended March 31, 2010, the Company has applied the "Revision of Accounting Standard for Accrued Retirement Benefits (Part 3)" (ASBJ Statement No.19, July 31, 2008).

As a result, operating income and income before income taxes and minority interests increased ¥899 million (US\$9,666 thousand) for the year ended March 31, 2010.

In February 2010, the Company revised its post-employment benefit plan.

The Company has transferred about 25% of the defined-benefit pension plan to the defined-contribution pension plan. As a result, a profit of ¥1,714 million (US\$18,433 thousand) was recognized in other income for the year ended March 31, 2010.

In parallel, the Company has decreased the proportion of life time annuity (with increasing the proportion of fixed-term annuity) in the defined-benefit pension plan. As a result, a profit of ¥2,068 million (US\$22,237 thousand) was recognized in other income for the year ended March 31, 2010.

(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 at year-end in accordance with established internal regulations.

The balance of these reserves at March 31, 2010, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥164 million (US\$1,767 thousand).

(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, 2010, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥1,306 million (US\$14,043 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) marketable 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.

Non-marketable available-for-sale securities are carried at cost.

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

(k) Derivatives

Derivatives are stated at fair value.

(l) Inventories

Finished goods, logs and lumber are stated at moving average cost.

Developed land and housing for sale and land and housing projects in progress are stated at cost, which is determined by the specific identification method.

The amount on the balance sheets is calculated by write-down method based on the decrease in profitability.

(m) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

(n) Intangible assets

Depreciation for intangible assets is computed by the straight-line method. Internal use software costs are depreciated by the straight-line method over the estimated useful life of five years.

(o) Deferred assets

Bond issuance costs are expensed as incurred.

(p) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(q) Hedge accounting

i) Hedge accounting method:

The deferred method is applied as hedge accounting method.

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting procedure is used for interest rate swaps as they satisfy the requirements for a special accounting procedure.

ii) Hedging method:

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

iii) Scope of hedging:

Certain transactions, including planned transactions, in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method:

The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments and a special accounting procedure is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(r) 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.

(s) Revenue recognition

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

Contract revenues, representing revenues from custom-built houses, are recorded by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The Companies account for short-term construction contracts in the completed-contract method.

(Change in accounting standard for revenue recognition)

Although construction revenue had been recognized by the completed-contract method until the year ended March 31, 2009, effective from April 1, 2009, the "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, December 27, 2007) are applied. Construction revenue should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably.

The Company continues to account for short-term construction contracts in the completed-contract method.

As a result, operating income decreased ¥159 million (US\$1,708 thousand) and income before income taxes and minority interests increased ¥162 million (US\$1,739 thousand).

(t) 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.

(u) 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.

(v) 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.

(w) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2009 have been reclassified to conform to presentation in 2010.

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 ¥93 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2010. 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 amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2010 and 2009 were as follows:

	Millions of yen			
	2010			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,864	¥10,819	¥(1,674)	¥36,009
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	792	4	(6)	790
Other	¥19,000	¥ —	¥ —	¥19,000

	Millions of yen			
	2009			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,151	¥7,191	¥(3,303)	¥31,038
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	412	4	(0)	416
Other	¥16,900	¥ —	¥ —	¥16,900

	Thousands of U.S. dollars			
	2010			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$288,863	\$116,338	\$(18,004)	\$387,197
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	8,517	45	(68)	8,494
Other	\$204,301	\$ —	\$ —	\$204,301

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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Proceeds	¥312	¥43	\$3,352
Gross gains	173	16	1,865
Gross losses	—	4	—

The difference between the above carrying amounts 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, 2010 and 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Standing timber:			
Mature timber	¥10,850	¥10,491	\$116,663
Growing timber	213	245	2,296
	11,063	10,736	118,959
Land	785	651	8,442
	¥11,848	¥11,387	\$127,401

The timberland accounts at March 31, 2010 and 2009 were reduced by ¥242 million (US\$2,604 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, 2010 and 2009 generally represented short-term borrowings which bore interest of 2.56% and 2.93% per annum, respectively. Long-term debt at March 31, 2010 and 2009 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans, principally from banks and insurance companies, due 2010 to 2036 with interest of 1.48%:			
Secured			
Loans from banks or other	¥ 22	¥ 1,644	\$ 242
Unsecured			
Bonds issued	15,000	—	161,290
Loans from banks or other	36,101	35,209	388,187
Lease obligation	3,455	2,364	37,151
	54,579	39,216	586,870
Portion due within one year			
Loans from banks or other	116	708	1,246
Lease obligation	815	514	8,767
	931	1,222	10,013
	¥53,648	¥37,994	\$576,857

The following assets were pledged to secure bank loans and long-term debt at March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposit	¥ —	¥ 90	\$ —
Receivables—			
Notes and accounts, trade	285	760	3,064
Finished goods, logs and lumber	1,467	2,103	15,772
Land	247	1,028	2,654
Buildings and structures	16	2,202	169
Machinery and equipment	1,148	5,660	12,348
Construction in progress	—	995	—
Timberland	—	929	—
	¥3,163	¥13,767	\$34,007

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2010 and 2009 were ¥12 million (US\$134 thousand) and ¥12 million, respectively, and investment securities as security for deferred payment of customs duties at March 31, 2010 were ¥9,199 million (US\$98,918 thousand).

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2010 were as follows:

Years ending March 31	Bonds issued		Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2010	¥ —	\$ —	¥ 116	\$ 1,246	¥ 815	\$ 8,767
2011	—	—	6,708	72,124	1,266	13,611
2012	—	—	6,476	69,632	896	9,637
2013	—	—	10,263	110,356	372	4,002
2014	10,000	107,527	5,263	56,593	97	1,047
Thereafter	5,000	53,763	7,299	78,478	8	87
	¥15,000	\$161,290	¥36,124	\$388,429	¥3,455	\$37,151

8.

Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2010 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			2010	2010
Komatsushima City, Tokushima Prefecture	Factory	Buildings and structures, machinery and equipment, land, and other	¥1,656	\$17,809
Ashigarashimo-gun, Kanagawa Prefecture	Unutilized assets	Land	39	421
Chuo-ku, Tokyo	Unutilized assets	Buildings and Land	7	80
—	Other	Goodwill	346	3,720
			¥2,049	\$22,030

9.

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 2010 was 40.0%.

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

	2010	2009
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	2.4	16.6
Per capita portion of Inhabitant Tax	3.0	13.7
Amortization of goodwill	2.0	5.4
Valuation allowance	12.2	(87.8)
Adjustment on prior year income taxes	—	(9.6)
Equity in losses of affiliates	8.5	—
Taxes on undistributed earnings of overseas subsidiaries	5.1	64.3
Other	4.5	7.3
Effective tax rate	77.8%	49.9%

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,170	¥ 3,213	\$ 34,088
Devaluation of real estate for sale and other assets	4,744	4,598	51,015
Pension and severance costs	3,864	7,292	41,550
Tax loss carryforwards	2,573	2,542	27,668
Impairment loss	1,989	1,554	21,389
Other	5,592	5,515	60,133
Gross deferred tax assets	21,933	24,714	235,843
Valuation allowance	(11,234)	(9,946)	(120,793)
Total deferred tax assets	10,700	14,768	115,050
Deferred tax liabilities:			
Deferred gains on sales of property	(897)	(1,242)	(9,645)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(17,101)
Unrealized gain on available-for-sale securities	(3,344)	(1,318)	(35,961)
Land revaluation differences	(1,309)	(1,309)	(14,077)
Taxes on undistributed earnings of overseas subsidiaries	(1,803)	(1,262)	(19,389)
Other	(3,676)	(2,633)	(39,531)
Gross deferred tax liabilities	(12,620)	(9,354)	(135,704)
Net deferred tax assets (liabilities)	¥ (1,921)	¥ 5,413	\$ (20,654)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2010 and 2009 as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets —			
Deferred tax assets	¥ 6,308	¥6,647	\$ 67,828
Investment and other assets —			
Deferred tax assets	1,138	1,761	12,242
Current liabilities — Other	(10)	(6)	(104)
Long-term liabilities —			
Deferred tax liabilities	(9,358)	(2,989)	(100,620)
Net deferred tax assets (liabilities)	¥(1,921)	¥5,413	\$ (20,654)

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Gain on foreign exchange	¥1,194	¥ —	\$12,840
Loss on foreign exchange	—	(1,047)	—
Gain on sales of property, plant and equipment	69	149	745
Loss on disposal of property, plant and equipment	(283)	(243)	(3,043)
Other, net	881	569	9,477
	¥1,862	¥ (572)	\$20,019

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were ¥1,476 million (US\$15,874 thousand) and ¥1,174 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥52,714	¥23,854	\$566,813
Short-term investments	19,000	16,900	204,301
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(51)	(24)	(551)
Cash and cash equivalents	¥71,662	¥40,730	\$770,563

13. 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 appropriated 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 balances of the legal reserve of the Company at March 31, 2010 and 2009, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US\$30,722 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 the Board of Directors, subject to limitations imposed by the Law.

14. Finance Leases

(Lessee)

Finance lease transactions that do not transfer ownership and that commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥7,133	¥8,481	\$76,697
Machinery and equipment	3,599	5,106	38,699
Other	84	107	899
Accumulated depreciation	(8,430)	(8,570)	(90,646)
	¥2,385	¥5,125	\$25,649

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Depreciation	¥2,729	¥4,180	\$29,343
Interest expenses	60	117	644

Finance leased charges in earnings to the Companies for the years ended March 31, 2010 and 2009 were ¥2,789 million (US\$29,987 thousand) and ¥4,296 million, respectively.

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 at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current obligation	¥1,596	¥2,707	\$17,164
Long-term obligation	840	2,506	9,034
Present value of lease payments	2,436	5,213	26,198

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the financial statements.

15. Contingent Liabilities

Contingent liabilities as at March 31, 2010 and 2009, for loans guaranteed amounted to ¥22,389 million (US\$240,746 thousand) and ¥15,150 million.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantee on loans from financial institutions			
PT. AST Indonesia	¥ —	¥ 196	\$ —
Dongwha SFC Housing Co., Ltd.	62	42	664
KAWASAKIBIOMASS ELECTRIC POWER CORPORATION	1,394	—	14,984
Cascadia Resort Communities LLC	46	46	495
Purchasers with housing loans applied	20,701	14,667	222,592
Other	0	0	0
Guarantee on rent payment			
Sumikyo Co., Ltd.	¥ 187	¥ 199	\$ 2,011
	¥22,389	¥15,150	\$240,746

16. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans in order to raise funds. Further the Companies enter into derivative contracts as needed in relation to normal foreign currency-denominated transactions, and to manage funds within a limited scope, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Uses of loans are mainly for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transaction (interest rate swap) for hedging. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rate related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payment for loans.

(c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customer at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to short-term investments and investment securities, the Companies regularly monitor prices and issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking market situation and relationship with issuers into consideration. Derivative 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.

The Companies believe that market 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.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)

The Finance Department of Company manages liquidity risk by establishing and revising cash flow plan based on report from each section.

(d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

(e) Fair values of financial instruments

Fair values of financial instruments are as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	2010		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 52,714	¥ 52,714	¥ —
Receivables-notes and accounts, trade	102,355	102,355	—
Marketable securities and investment securities			
Held-to-maturity	792	790	(2)
Available-for-sale	55,009	55,009	—
Receivables-loans and other	42,599	42,599	—
Total	¥ 253,470	¥ 253,468	¥ (2)
Payables-notes and accounts, trade	¥(147,582)	¥(147,582)	¥ —
Long-term debt	(36,124)	(36,441)	(317)
Total	¥(183,706)	¥(184,023)	¥(317)
Derivatives*			
Hedge accounting not applied	¥ 84	¥ 84	¥ —
Hedge accounting applied	40	40	—
Total	¥ 124	¥ 124	¥ —

	Thousands of U.S. dollars		
	2010		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	\$ 566,813	\$ 566,813	\$ —
Receivables-notes and accounts, trade	1,100,594	1,100,594	—
Marketable securities and investment securities			
Held-to-maturity	8,517	8,495	(22)
Available-for-sale	591,498	591,498	—
Receivables-loans and other	458,058	458,058	—
Total	\$ 2,725,480	\$ 2,725,458	\$ (22)
Payables-notes and accounts, trade	\$(1,586,903)	\$(1,586,903)	\$ —
Long-term debt	(388,429)	(391,843)	(3,414)
Total	\$(1,975,332)	\$(1,978,746)	\$(3,414)
Derivatives*			
Hedge accounting not applied	\$ 903	\$ 903	\$ —
Hedge accounting applied	427	427	—
Total	\$ 1,330	\$ 1,330	\$ —

* Net receivables / payables arising from derivatives are shown. Items that are net payables are shown in parentheses.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions.

(1) Assets

(Cash and time deposits, Receivable-notes and accounts, trade, Receivable-loans and other)

Because these are settled in short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from the financial institution.

(2) Liabilities

(Payables-notes and accounts, trade)

Because these are settled in short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Long-term debt)

The fair values of long-term debt with floating rate interest approximate book values because the interest rate of long-term debt reflects market interest rate in a short period, and the change of credit standing of the Company is not occurred significantly after implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed rate interest are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See note 17.

2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount	
	2010	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥1,392	\$ 14,970
Preferred stock	3,000	32,258
Investment in affiliates	9,901	106,460

3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	2010			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 52,249	¥—	¥ —	¥—
Receivables-notes and accounts, trade	102,355	—	—	—
Marketable securities and investment securities				
Government bonds	—	—	792	—
Other	19,000	—	—	—
Receivables-loans and other	42,599	—	—	—
Total	¥216,204	¥—	¥792	¥—

	Thousands of U.S. dollars			
	2010			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 561,820	\$—	\$ —	\$—
Receivables-notes and accounts, trade	1,100,594	—	—	—
Marketable securities and investment securities				
Government bonds	—	—	8,517	—
Other	204,301	—	—	—
Receivables-loans and other	458,058	—	—	—
Total	\$2,324,773	\$—	\$8,517	\$—

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) and the "Guidance on Disclosure about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 10, 2008).

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	Millions of yen			
	2010			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 909	¥—	¥79	¥79
Sell (U.S. dollar)	359	—	5	5
Total	¥1,268	¥—	¥84	¥84

	Thousands of U.S. dollars			
	2010			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	\$ 9,774	\$—	\$852	\$852
Sell (U.S. dollar)	3,864	—	51	51
Total	\$13,638	\$—	\$903	\$903

Derivative transactions to which hedge accounting is applied at March 31, 2010

	Hedged item	Millions of yen		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 2,797	¥ —	¥ (60)
Sell (Euro)		1,442	—	(19)
Buy (U.S. dollar)	Accounts amount payable	5,092	—	156
Buy (Euro)		4,894	—	(36)
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount payable	51	—	*
Buy (U.S. dollar)	Accounts amount payable	304	—	
Total		¥14,581	¥ —	¥ 40
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	11,000	*
Total		¥11,000	¥11,000	

	Hedged item	Thousands of U.S. dollars		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	\$ 30,079	\$ —	\$ (648)
Sell (Euro)		15,504	—	(209)
Buy (U.S. dollar)	Accounts amount payable	54,752	—	1,676
Buy (Euro)		52,626	—	(392)
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount payable	550	—	*
Buy (U.S. dollar)	Accounts amount payable	3,270	—	
Total		\$156,781	\$ —	\$ 427
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	118,280	118,280	*
Total		\$118,280	\$118,280	

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swaps, are treated in combination with the hedged items; accounts payable or long-term bank loans, the fair values of these derivatives are included in those of hedge items.

	Millions of yen			
	2009			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	¥4,836	¥—	¥5,098	¥(261)
Sell (U.S. dollar)	694	—	793	(98)
Total	¥5,531	¥—	¥5,890	¥(360)

The market price at the end of the fiscal year is based on the forward foreign exchange rate then prevailing in the market. Items for which hedge accounting is applied are excluded from the above table disclosure.

18. 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. A certain domestic subsidiary uses Smaller Enterprise Retirement Allowance Mutual Aid 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 employee's basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt a defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

In February 2010, the Company revised its post-employment benefit plan.

The Company has transferred about 25% of the defined-benefit pension plan to the defined-contribution pension plan. In parallel, the Company has decreased the proportion of life time annuity (with increasing the proportion of fixed-term annuity) in the defined-benefit pension plan.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥(45,759)	¥(53,871)	\$ (492,033)
Fair value of plan assets	41,965	35,457	451,234
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (3,794)	¥(18,414)	\$ (40,799)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ 1,595	—	\$ 17,156
Accrued employees' retirement benefits	(5,390)	(18,414)	(57,955)
	¥ (3,794)	¥(18,414)	\$ (40,799)

The components of net periodic benefit cost for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 3,068	¥3,161	\$ 32,987
Interest cost	1,076	980	11,571
Expected return on plan assets	(1,262)	(1,286)	(13,571)
Recognized actuarial loss	(2,364)	4,986	(25,416)
Amortization of prior service cost	(2,068)	13	(22,237)
Expense of changing accounting method	—	578	—
Net periodic benefit cost	¥(1,550)	¥8,432	\$ (16,666)
Gain on transition of defined-contribution pension	(1,714)	—	(18,433)
Other	112	—	1,207
Total periodic benefit cost	¥(3,152)	¥8,432	\$ (33,892)

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

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	2.2%	2.1%
Expected rate of return on plan assets	3.6%	3.6%
Recognition period of actuarial gain / loss	1 year	1 year

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as apartment houses in Tokyo and other areas. The net income for the investment properties for the year ended March 31, 2010 was ¥1,052 million (US\$11,317 thousand). The Income is recognized in Net sales and the expense is principally charged to Cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Carrying amount	Fair value	Carrying amount	Fair value
	Increase / (decrease)	2010	2010	2010
2009				
¥18,826	¥(2,340)	¥16,486	¥17,813	\$177,271
				\$191,534

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No.20, November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, November 28, 2008).

20.

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, 2010	Millions of yen					
	Timber and Building Materials	Housing	Other	Total	Elimination and/or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥344,874	¥375,202	¥ 3,847	¥723,923	¥ —	¥723,923
Intersegment transfers	16,938	456	12,024	29,419	(29,419)	—
Total	361,812	375,658	15,871	753,341	(29,419)	723,923
Operating expenses	360,899	361,914	14,958	737,772	(23,596)	714,176
Operating income	¥ 913	¥ 13,744	¥ 913	¥ 15,570	¥ (5,823)	¥ 9,747
Identifiable assets, depreciation and amortization, impairment loss and capital investment:						
Identifiable assets	¥191,811	¥158,410	¥13,001	¥363,222	¥106,516	¥469,738
Depreciation and amortization	3,310	3,595	847	7,752	751	8,502
Impairment loss	1,656	393	—	2,049	—	2,049
Capital investment	2,806	7,307	712	10,825	1,767	12,592

Year ended March 31, 2009	Millions of yen					
	Timber and Building Materials	Housing	Other	Total	Elimination and/or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥413,995	¥406,064	¥ 3,751	¥823,810	¥ —	¥823,810
Intersegment transfers	19,652	287	12,303	32,243	(32,243)	—
Total	433,648	406,351	16,054	856,053	(32,243)	823,810
Operating expenses	431,594	397,904	15,119	844,616	(27,643)	816,973
Operating income	¥ 2,054	¥ 8,447	¥ 936	¥ 11,436	¥ (4,599)	¥ 6,837
Identifiable assets, depreciation and amortization, impairment loss and capital investment:						
Identifiable assets	¥197,259	¥149,543	¥11,449	¥358,251	¥69,487	¥427,738
Depreciation and amortization	3,890	2,860	854	7,604	873	8,477
Impairment loss	—	—	—	—	532	532
Capital investment	5,272	18,960	850	25,082	1,156	26,238

Year ended March 31, 2010	Thousands of U.S. dollars					
	Timber and Building Materials	Housing	Other	Total	Elimination and/or Corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	\$3,708,318	\$4,034,433	\$ 41,365	\$7,784,116	\$ —	\$7,784,116
Intersegment transfers	182,132	4,904	129,294	316,330	(316,330)	—
Total	3,890,450	4,039,337	170,659	8,100,446	(316,330)	7,784,116
Operating expenses	3,880,638	3,891,552	160,839	7,933,029	(253,718)	7,679,311
Operating income	\$ 9,812	\$ 147,785	\$ 9,820	\$ 167,417	\$ (62,612)	\$ 104,805
Identifiable assets, depreciation and amortization, impairment loss and capital investment:						
Identifiable assets	\$2,062,485	\$1,703,332	\$139,798	\$3,905,615	\$1,145,337	\$5,050,952
Depreciation and amortization	35,588	38,653	9,109	83,350	8,073	91,423
Impairment loss	17,809	4,221	—	22,030	—	22,030
Capital investment	30,167	78,575	7,657	116,399	19,000	135,399

b) Geographical segment information —

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

Year ended March 31, 2010	Millions of yen			Elimination and/or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥703,958	¥19,965	¥723,923	¥ —	¥723,923
Intersegment transfers	1,801	5,603	7,404	(7,404)	—
Total	705,759	25,568	731,327	(7,404)	723,923
Operating expenses	689,733	25,796	715,529	(1,353)	714,176
Operating income	¥ 16,026	¥ (228)	¥ 15,798	¥ (6,051)	¥ 9,747
Identifiable assets	¥328,784	¥50,978	¥379,761	¥89,977	¥469,738

Year ended March 31, 2009	Millions of yen			Elimination and/or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥799,069	¥24,741	¥823,810	¥ —	¥823,810
Intersegment transfers	2,213	7,152	9,365	(9,365)	—
Total	801,282	31,893	833,175	(9,365)	823,810
Operating expenses	790,797	30,583	821,381	(4,408)	816,973
Operating income	¥ 10,484	¥ 1,310	¥ 11,794	¥ (4,957)	¥ 6,837
Identifiable assets	¥329,893	¥42,432	¥372,325	¥55,413	¥427,738

Year ended March 31, 2010	Thousands of U.S. dollars			Elimination and/or Corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	\$7,569,440	\$214,676	\$7,784,116	\$ —	\$7,784,116
Intersegment transfers	19,365	60,247	79,612	(79,612)	—
Total	7,588,805	274,923	7,863,728	(79,612)	7,784,116
Operating expenses	7,416,480	277,378	7,693,858	(14,547)	7,679,311
Operating income	\$ 172,325	\$ (2,455)	\$ 169,870	\$ (65,065)	\$ 104,805
Identifiable assets	\$3,535,309	\$548,146	\$4,083,455	\$967,497	\$5,050,952

c) Overseas sales information —

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

21.

Net Income per Share

The computation of net income per share for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Numerator for net income per share:			
Net income	¥2,377	¥1,028	\$25,559
Income not available to common stockholders	—	—	—
Income available to common stockholders	2,377	1,028	25,559
Denominator for net income per share:			
Weighted average number of shares issued	177,147,826	177,163,309	

The diluted net income per share for the years ended March 31, 2010 and 2009 was not presented because there were no shares with dilutive effect.

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, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, 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, 2010 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 LLC

June 25, 2010