

[TRANSLATION]

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**Sumitomo Forestry Co., Ltd.**  
8-1, Marunouchi 1-chome  
Chiyoda-ku, Tokyo

(Securities Code : 1911)  
31st May 2007

Dear Fellow Shareholders:

### **NOTICE FOR THE 67TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

We are pleased to invite you to attend our 67th Ordinary General Meeting of Shareholders to be held as follows.

**If you are unable to attend the meeting in person, please carefully read the attached proxy statement, complete the enclosed proxy card to vote your shares in favor of or against the proposals, and return it to us after affixing your seal thereupon.**

Yours faithfully,

Ryu Yano  
President and Director

#### Particulars of the Meeting:

- 1. Date and Time:** Friday, 22nd June 2007 at 10:00 a.m.
- 2. Place:** The Main Conference Room of Tokyo Headquarters on the 14th Floor of Marunouchi Trust Tower North at 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- 3. Purposes of the meeting:**
  - Matters to be reported:**
    1. To hear reports on the Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements for the 67th business term (from 1st April 2006 to 31st March 2007); and
    2. To report the results of audits of the Consolidated Financial Statements for the 67th business term by the Company's Independent Auditors and the Board of Statutory Auditors.

**Matters to be resolved:**

- 1st Item of Business :** Approval of the appropriation of retained earnings
- 2nd Item of Business :** Payment of bonus to directors for the 67th business term
- 3rd Item of Business :** Amendments to the Articles of Incorporation
- 4th Item of Business :** Election of one Statutory Auditor

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If you attend the meeting in person, please submit the enclosed proxy card to the reception desk.

Should any descriptions of this notice of convocation and the accompanying proxy statement be corrected, we will **send the corrections by mail or post them on our website (<http://sfc.jp/english/>)**.

## PROXY STATEMENT

### 1st Item of Business : Approval of appropriation of retained earnings

We propose to appropriate retained earnings as follows with a comprehensive view towards reinforcing our managerial base and financial position.

#### 1. Year-end Dividend for the 67th Business term

The Board of Directors declared payment of a year-end dividend for the 67th Business term of 8.50 yen per share, which is an increase of 2 yen per share from the previous period in line with the Company's basic policy to pay dividends on a stable and continuous basis, considering the operating performance for the 67th business term and other relevant factors together and in view of returning profits to shareholders.

Accordingly, the annual dividend for the 67th business term, including the interim dividend, will be 15 yen per share.

##### (1) Type of assets subject to distribution:

Cash

##### (2) Allotment to shareholders of the assets subject to distribution and the total amount:

8.50 yen per Ordinary Share  
Total amount: 1,506,506,434 yen

##### (3) Date of which appropriation of retained earnings would be effective:

25th June, 2007

#### 2. Appropriation of retained earnings

##### (1) The item of retained earnings and the amount to be increased:

|                  |                   |
|------------------|-------------------|
| General Reserves | 6,500,000,000 yen |
|------------------|-------------------|

##### (2) The item of retained earnings and the amount to be decreased:

|                                   |                   |
|-----------------------------------|-------------------|
| Retained earnings carried forward | 8,006,506,434 yen |
|-----------------------------------|-------------------|

### 2nd Item of Business : Payment of Bonus to Directors for the 67th Business Term

The Company intends to pay bonus totaling 60,000,000 yen to seven Directors in office at the end of the 67th Business term considering the business performance during the 67th Business term and other relevant factors comprehensively.

### 3rd Item of Business: Amendments to the Articles of Incorporation

#### 1. Reasons for the proposed amendments

- (1) We propose to add a new business objective to accommodate diversification of our business resulting from the incorporation of a subsidiary that establishes, operates and manages elderly welfare facilities and child welfare facilities, and change the

numbering of items accordingly.

- (2) In order to promote convenience in perusing public notices and to save costs, we propose to change the method of public notice to posting this electronically and provide for alternative measures if public notice cannot be given electronically due to an accident or any other unavoidable reason.

2. Details of the Amendments

The details of the proposed amendments are as follows (amended portions underscored):

| Articles of Incorporation currently in effect   | Proposed amendments  |
|---|--|
| <p>Article 2. (Purpose)<br/>The purpose of the Company shall be to engage in the following businesses:<br/>1. to 21. [Omitted]<br/>[Newly created.]</p> <p><u>22.</u> [Omitted]<br/><u>23.</u> [Omitted]</p> <p>Article 5. (Method of Public Notices)<br/>Public notices of the Company shall be published in the "Nihon Keizai Shinbun".</p> | <p>Article 2. (Purpose)<br/>The purpose of the Company shall be to engage in the following businesses:<br/>1. to 21. [No change]<br/><u>22. Establish, operate and manage elderly welfare facilities and child welfare facilities;</u><br/><u>23.</u> [No change]<br/><u>24.</u> [No change]</p> <p>Article 5. (Method of Public Notices)<br/>Public notices of the Company shall be <u>given electronically. However, if the Company is prevented from giving public notice electronically due to an accident or any other unavoidable reason, the Company shall publish its public notices in the "Nihon Keizan Shinbun" as an alternative method.</u></p> |

**4th Item of Business : Election of one Statutory Auditor**

The term of office for Mr. Satohiko Sasaki, Statutory Auditor, will expire at the closing of this meeting and we propose to elect one Statutory Auditor.

The candidate is as follows.

The Company has obtained the consent of the Board of Statutory Auditors to this item of business.

(the current titles and responsibilities underscored )

| Name<br>(Date of birth)                 | Brief personal history, other representations, and title and responsibilities while actually serving as the Statutory Auditor of the Company   | No. of shares held<br>(# of shares) |
|---|--|-------------------------------------|
| Satohiko Sasaki<br>(August 24,<br>1935) | <p>April 1996 <u>Professor Emeritus of Tokyo University</u></p> <p>October 1996 Professor of Bioresource Sciences Department at Nihon University</p> <p>October 1999 Head of Bioresource Sciences Department at Nihon University</p> <p>June 2000 <u>Statutory Auditor of the Company</u></p> <p>September 2003 Vice President of Nihon University</p> <p>September 2005 <u>Professor of General Research Institute of Nihon University,</u><br/><u>Advisor of Bioresource Sciences Department,</u><br/><u>Biological Environment Research Center of Nihon University</u></p> <p>January 2007 <u>Member of The Japan Academy</u></p> | 0                                   |

Notes:

1. There is no special interest between the candidate and the Company.
2. Mr. Satohiko Sasaki is a candidate for non-executive statutory auditor set forth in Article 2, Paragraph 3, Item 8 of the Corporation Act.
3. The Company nominated Mr. Satohiko Sasaki as a non-executive statutory auditor in anticipation that he would appropriately perform audit operations from his professional insight backed by his rich experience in the field of forest resource which is closely related to our business.
4. Mr. Satohiko Sasaki was never involved with the management of the Company other than serving as our non-executive statutory auditor in the past, however, the Company believes that he is well qualified to perform audit operations appropriately from his experience in organizational management through serving the posts of the academic dean of the Tokyo University, and the academic dean and Vice President of the Nihon University.
5. Mr. Satohiko Sasaki is currently our non-executive statutory auditor and he shall have served as our non-executive statutory auditor for a total 7 years as of the closing of this meeting.
6. The Company executes an agreement with each of the non-executive statutory auditors pursuant to Article 36 of the Articles of Incorporation to set a limit on the amount of liability for damages to the total amount of each of the items set forth in Article 425, Paragraph 1 of the Corporation Act. The Company will execute an agreement with Mr. Satohiko Sasaki again in the same content on condition that this item of business is approved as proposed.

## CONSOLIDATED BALANCE SHEET

31st March 2007

(Yen in millions)

| <u>Assets</u>                                      |                  |
|--|------------------|
| I Current assets:                                  |                  |
| (1) Cash and cash in banks                         | ¥ 47,385         |
| (2) Notes receivable and accounts receivable-trade | 161,972          |
| (3) Accounts receivable-housing construction       | 5,432            |
| (4) Marketable securities                          | 3,000            |
| (5) Inventories                                    | 30,087           |
| (6) Real estate for sale                           | 12,128           |
| (7) Work in process                                | 16,698           |
| (8) Deferred tax assets                            | 6,179            |
| (9) Short-term loans                               | 5,643            |
| (10) Other receivables                             | 44,495           |
| (11) Other assets                                  | 4,710            |
| (12) Allowance for doubtful accounts               | <u>(657)</u>     |
|  | <u>337,072</u>   |
| II Fixed assets:                                   |                  |
| Property, plant and equipment:                     |                  |
| (1) Buildings and other structures                 | 19,792           |
| (2) Machinery, equipment and vehicles              | 18,249           |
| (3) Land   | 19,812           |
| (4) Construction in progress                       | 3,867            |
| (5) Other property, plant and equipment            | <u>12,330</u>    |
|  | <u>74,050</u>    |
| Intangibles assets:                                |                  |
| (1) Goodwill                                       | 927              |
| (2) Other intangibles assets                       | <u>5,386</u>     |
|  | <u>6,313</u>     |
| Investments and other assets:                      |                  |
| (1) Investment securities                          | 71,584           |
| (2) Long-term loans                                | 460              |
| (3) Deferred tax assets                            | 1,101            |
| (4) Other investments/assets                       | 11,393           |
| (5) Allowance for doubtful accounts                | <u>(1,837)</u>   |
|  | <u>82,700</u>    |
|  | <u>163,064</u>   |
| Total assets                                       | ¥ <u>500,136</u> |

## CONSOLIDATED BALANCE SHEET

31st March 2007

(Yen in millions)

| <u>Liabilities</u>                                  |                  |
|---|------------------|
| I Current liabilities:                              |                  |
| (1) Notes payable and accounts payable-trade        | ¥ 103,374        |
| (2) Accounts payable-housing construction           | 63,766           |
| (3) Short-term borrowings                           | 16,816           |
| (4) Corporate bonds due within one year             | 160              |
| (5) Income taxes payable                            | 4,602            |
| (6) Advances received for construction              | 43,433           |
| (7) Deferred tax liabilities                        | 59               |
| (8) Allowance for bonuses                           | 8,566            |
| (9) Allowance for bonuses to directors              | 83               |
| (10) Warranty reserve for completed construction    | 1,391            |
| (11) Allowance for losses on restructuring          | 9                |
| (12) Other liabilities                              | <u>18,360</u>    |
|   | <u>260,619</u>   |
| II Long-term liabilities:                           |                  |
| (1) Long-term borrowings                            | 8,763            |
| (2) Deferred tax liabilities                        | 15,400           |
| (3) Allowance for retirement benefits               | 12,383           |
| (4) Retirement allowance for directors              | 364              |
| (5) Allowance for losses on restructuring           | 888              |
| (6) Other long-term liabilities                     | <u>12,864</u>    |
|   | <u>50,662</u>    |
| Total liabilities                                   | <u>311,281</u>   |
| <u>Equity</u>                                       |                  |
| I Shareholders' equity                              |                  |
| (1) Common stock                                    | 27,672           |
| (2) Capital surplus                                 | 26,882           |
| (3) Retained earnings                               | 108,919          |
| (4) Treasury stock                                  | <u>(184)</u>     |
|   | <u>163,288</u>   |
| II Valuation and translation adjustments            |                  |
| (1) Other securities valuation difference           | 22,482           |
| (2) Deferred gains or losses on hedges              | 155              |
| (3) Foreign currency translation adjustment account | <u>1,804</u>     |
|   | <u>24,441</u>    |
| III Minority interests                              | 1,125            |
| Total equity  | <u>188,855</u>   |
| Total liabilities and equity                        | ¥ <u>500,136</u> |

## CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended 31st March 2007

(Yen in millions)

|  |   |                |
|--|---|----------------|
| I Net sales:   |   |                |
| 1. Sales   | ¥ | 545,735        |
| 2. Sales of completed construction                         |   | <u>365,940</u> |
|  |   | <u>911,674</u> |
| II Cost of sales:  |   |                |
| 1. Cost of sales   |   | 504,152        |
| 2. Cost of completed construction                          |   | <u>266,405</u> |
|  |   | <u>770,558</u> |
| Gross profit   |   | <u>141,117</u> |
| III Selling, general and administrative expenses           |   | <u>120,711</u> |
| Operating income   |   | <u>20,405</u>  |
| IV Non-operating income:                                   |   |                |
| 1. Interest income   |   | 600            |
| 2. Purchase discount                                       |   | 872            |
| 3. Dividend income   |   | 699            |
| 4. Income from equity-method investments                   |   | 228            |
| 5. Other income  |   | <u>1,627</u>   |
|  |   | <u>4,026</u>   |
| V Non-operating expenses:                                  |   |                |
| 1. Interest expenses                                       |   | 1,284          |
| 2. Sales discount  |   | 725            |
| 3. Appraisal losses on property for sale, etc.             |   | 137            |
| 4. Other expenses  |   | <u>1,026</u>   |
|  |   | <u>3,172</u>   |
| Ordinary profit  |   | <u>21,259</u>  |
| VI Extraordinary gain:                                     |   |                |
| 1. Gains on sales of fixed assets                          |   | 696            |
| 2. Gains on sales of investment securities                 |   | <u>273</u>     |
|  |   | <u>969</u>     |
| VII Extraordinary loss:                                    |   |                |
| 1. Losses on sales of fixed assets                         |   | 168            |
| 2. Losses on retirement of fixed assets                    |   | 202            |
| 3. Appraisal losses on investment securities               |   | 9              |
| 4. Provision of allowance for losses on restructuring      |   | 663            |
| 5. Loss on retirement benefit payment resulted from merger |   | 145            |
| 6. Office transfer expenses                                |   | <u>352</u>     |
|  |   | <u>1,539</u>   |
| Income before income taxes and minority interests          |   | <u>20,689</u>  |
| Income taxes - Current                                     |   | 5,381          |
| - Deferred   |   | 3,180          |
| Minority interests in earnings                             |   | <u>174</u>     |
| Net income   | ¥ | <u>11,954</u>  |



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st March 2007

(Yen in millions)

|  | Shareholders' equity |                 |                   |                |                            | Valuation and translation adjustments |                                    |                        | Minority interests | Total equity |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---------------------------------------|------------------------------------|------------------------|--------------------|--------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Other securities valuation difference | Deferred gains or losses on hedges | Translation adjustment |                    |              |
| Balance as of 31st March 2006                        | 27,672               | 25,655          | 99,319            | (617)          | 152,029                    | 22,125                                | -                                  | 1,052                  | 3,124              | 178,330      |
| Changes of items during the period                   |                      |                 |                   |                |                            |                                       |                                    |                        |                    |              |
| Dividends from retained earnings (Note)              |                      |                 | (1,143)           |                | (1,143)                    |                                       |                                    |                        |                    | (1,143)      |
| Dividends from retained earnings                     |                      |                 | (1,152)           |                | (1,152)                    |                                       |                                    |                        |                    | (1,152)      |
| Bonuses to directors (Note)                          |                      |                 | (59)              |                | (59)                       |                                       |                                    |                        |                    | (59)         |
| Net income   |                      |                 | 11,954            |                | 11,954                     |                                       |                                    |                        |                    | 11,954       |
| Purchase of treasury stock                           |                      |                 |                   | (130)          | (130)                      |                                       |                                    |                        |                    | (130)        |
| Disposal of treasury stock                           |                      | 1               |                   | 5              | 6                          |                                       |                                    |                        |                    | 6            |
| Increase or decrease by business combination         |                      | 1,226           |                   | 557            | 1,783                      |                                       |                                    |                        |                    | 1,783        |
| Net changes of items other than shareholders' equity |                      |                 |                   |                | -                          | 357                                   | 155                                | 752                    | (1,999)            | (735)        |
| Total changes of items during the period             | -                    | 1,227           | 9,600             | 432            | 11,259                     | 357                                   | 155                                | 752                    | (1,999)            | 10,524       |
| Balance as of 31st March 2007                        | 27,672               | 26,882          | 108,919           | (184)          | 163,288                    | 22,482                                | 155                                | 1,804                  | 1,125              | 188,855      |

(Note) Appropriation of earnings approved at the Ordinary General Meeting of Shareholders in June 2006.

## Notes to Consolidated Financial Statements

### Significant Accounting Policies Regarding the Preparation of Consolidated Financial Statements

#### 1. Scope of consolidation

There are 45 consolidated subsidiaries, which include Sumitomo Forestry Two-By-Four Homes Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sun Step Co., Ltd., PT. Kutai Timber Indonesia, ALPINE MDF INDUSTRIES PTY LTD., and Nelson Pine Industries Limited. We included Sumirin Life Assist Co., Ltd. and Sumitomo Forestry (Dalian) Ltd., which were established during the period, as consolidated subsidiaries starting the current fiscal year.

However, we excluded Tokai Sumirin Base Techno Co., Ltd. and Nishinihon Sumirin Base Techno Co., Ltd. from the scope of consolidation because they were absorbed by Higashinihon Sumirin Base Techno Co., Ltd., which is another consolidated subsidiary and has changed its name to Sumirin Base Techno Co., Ltd. as of 1st April 2006. Also, we excluded Ataka Kenzai Co., Ltd. from the scope of consolidation since the company merged with Sumitomo Forestry Co. Ltd. as of 1st April 2006. In addition, Kubara Kogyo LLC. has been excluded from the scope of consolidation as the company completed its liquidation on 6th June 2006.

Sumirin Construction Co., Ltd., a consolidated subsidiary in the previous fiscal year, changed its name to Sumitomo Forestry Home Engineering Co., Ltd. as of 1st October 2006.

#### 2. Application of equity method

- (1) There are seven affiliated companies to which the equity method is applicable, including P.T. Rimba Partikel Indonesia, PT.AST INDONESIA, and BENNETT-SFS LLC.
- (2) Although we have between 20% and 50% of the voting rights of Chuo Co., Ltd., we excluded it from our affiliated company as we do not have substantial control over it.
- (3) As for equity-method affiliated companies whose dates of settlement differ from the date of consolidated statements, their financial statements for the corresponding fiscal year are used.

#### 3. Accounting periods of consolidated subsidiaries

The fiscal year for two consolidated subsidiaries, Daiichi Sansho Co., Ltd. and Nihei & Co. ends on 20th March. In preparing the consolidated financial statements for the fiscal year under review, their statement as of 20th March 2007 are used. The rest of the domestic consolidated subsidiaries' fiscal year all fall on 31st March.

In preparing the consolidated financial statements for the fiscal year under review, their statements as of 31st March 2007 are used. Meanwhile, the overseas consolidated subsidiaries' fiscal years all fall on 31st December and their statements as of 31st December 2006 are used for preparing the consolidated financial statements.

#### 4. Accounting standards

- (1) Valuation standards and methods for principal assets

##### a. Marketable securities

Held-to-maturity securities

Stated at amortized cost using the straight-line method.

Other securities with a market value

Principally carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Other securities valuation difference." The cost of other securities sold is computed based on the moving-average method.

Other securities with no market value

Carried at cost based on the moving-average method.

b. Inventories

Merchandise is carried at cost using the moving-average method, while real estate held for sale and work in process are stated at cost using the specific cost method.

(2) Depreciation Method

a. Property, plant and equipment

Depreciated using mainly the declining-balance method. Buildings (excluding building fixtures) acquired on or after 1st April 1998 are depreciated using the straight-line method.

b. Intangible assets

Amortized using straight-line method. Computer software for internal use is amortized over estimated useful life (5 years) using straight-line method.

(3) Calculation Basis of Allowances

a. Allowance for doubtful accounts

An allowance for doubtful accounts has been established for the possible losses from uncollectible monetary rights such as receivables and loans. An allowance is estimated based on individual evaluation for doubtful monetary rights, and by the historical rate of credit loss for normal monetary rights.

b. Allowance for bonuses

An allowance for bonuses has been provided based on estimated bonuses to be paid to employees which should be charged to income in the current year.

c. Allowance for bonuses to directors

To provide for the payment of bonuses to directors, the estimated amount of directors' bonus payments during the fiscal year is provided to the allowance for bonuses to directors.

d. Warranty reserve for completed construction

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

e. Allowance for losses on restructuring

An allowance has been provided for the possible losses incurred as a result of restructuring.

f. Allowance for retirement benefits

The Company established an allowance for retirement benefits to prepare a disbursement scheme of such benefits for employees. We posted this allowance based on the value of retirement benefit obligations and the estimated value of pension assets at the end of the current fiscal year. We process unrecognized actuarial losses en bloc for the year in which they occur.

g. Retirement allowance for directors

For some consolidated subsidiaries, we have provided an allowance for retirement benefit based on the estimated benefits to be paid to directors at the year-end in accordance with the company's established policy.

(4) Accounting for Leases

Financing leases, other than those under which the ownership of the leased assets is regarded to be transferred to the lessee, are accounted for as ordinary operating leases.

(5) Accounting for Hedge

a. Accounting for hedge

Hedged foreign trade transactions are accounted for under the allocation method. (The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rate.)

b. Instruments used for hedge

In order to manage risks arising from fluctuations in foreign currency exchange rates, the Company enters into foreign exchange contracts.

c. Hedged items

The Company hedges certain foreign trade transactions including forecasted transactions within the scope of established company policy.

d. Effectiveness of hedge

As hedging through foreign exchange contracts is recognized as highly effective, the evaluation of its effectiveness is omitted.

(6) Other important items for compiling consolidated financial statements

Consumption Tax

Transactions subject to consumption tax and the local consumption tax are recorded under net tax method.

5. Valuation for assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are fully valued at market value.

6. Amortization of goodwill

The goodwill is amortized evenly over a five-year period. In case the amount is insignificant, such account is amortized in the fiscal year when it accrued.

Changes in Important Matters on Which the Preparation of Consolidated Financial Statements is Based

1. Accounting standards related to the presentation of Equity in balance sheet

Starting the fiscal year under review, we adopted the “Accounting Standard for Presentation of Equity in the Balance Sheet” (The Accounting Standards Board of Japan, 9th December 2005 Accounting Standards No. 5.) and “Guidance on Accounting Standard for Presentation of Equity in the Balance Sheet” (The Accounting Standards Board of Japan, 9th December 2005 Guidance Accounting Standards No. 8.). This does not have any effects on profit and loss. The amount which falls under the former title “Shareholders’ equity” is ¥187,574 million. Due to the revision of the Regulations of Consolidated Financial Statements, Equity in this fiscal year’s consolidated balance sheet was prepared pursuant to the revised Regulations of Consolidated Financial Statements.

2. Accounting standards related to bonuses to directors

Starting the fiscal year under review, we adopted the “Accounting Standard for Bonuses to Directors” (The Accounting Standards Board of Japan, 29th November 2005 Accounting Standards No. 4.). This resulted in a decrease of ¥83 million in each of operating income, ordinary profit and income before income taxes and minority interests.

3. Accounting standards related to business combination

Starting the fiscal year under review, we adopted the “Accounting Standard concerning Business Combination” (The Accounting Standards Board of Japan, 31st October 2003.) and “Guidance on Accounting Standard concerning Business Combination and Separation” (The Accounting Standards Board of Japan, 27th December 2005 Guidance on Accounting Standards No. 10.).

Notes to Consolidated Balance Sheet

1. Assets pledged as collateral

(1) Assets pledged as collateral

|  |                 |
|--|-----------------|
| Notes receivable and accounts receivable-trade | ¥457 million    |
| Inventories                                    | ¥1,407 million  |
| Buildings and other structures                 | ¥3,774 million  |
| Machinery, equipment and vehicles              | ¥9,614 million  |
| Land   | ¥ 334 million   |
| Forest   | ¥2,000 million  |
| Total  | ¥17,586 million |

Forest is inserted into “Others” in property, plant and equipment.

(2) Liabilities secured by collateral

|  |                |
|--|----------------|
| Notes payable and accounts payable-trade | ¥57 million    |
| Short-term borrowings                    | ¥2,222 million |
| Long-term loans payable                  | ¥3,177 million |
| Total                                    | ¥5,456 million |

2. Accumulated depreciation of property, plant and equipment ¥60,622 million

3. Amount guaranteed by the Group, etc.

(1) Contingent liabilities

1) Guarantee on loans from financial institutions

|   |                        |
|---|------------------------|
| PT. Kutai Timber Indonesia              | ¥2,008 million         |
| PT.AST INDONESIA                        | ¥236 million           |
| PARAGON WOOD PRODUCT (DALIAN) CO., LTD. | ¥57 million            |
| Purchasers with housing loans applied   | ¥19,276 million        |
| Others                                  | ¥0 million             |
| <b>Total</b>                            | <b>¥21,577 million</b> |

2) Guarantee on rent payment

|                  |              |
|------------------|--------------|
| Sumikyo Co. Ltd. | ¥223 million |
|------------------|--------------|

(2) Notes receivable discounted ¥159 million

4. Notes matured on the end date of the fiscal year

Notes matured on the end date of the fiscal year are settled on the clearing date. Since the end date of the current period was a bank holiday, the amount of the notes maturing on the year end date is included in the year end balance as shown below.

|                  |                 |
|------------------|-----------------|
| Notes receivable | ¥11,689 million |
| Notes payable    | ¥4,477 million  |

Notes to Consolidated Profit and Loss Statement

The estimated amount to be borne by the Company related to the Land Readjustment Project is recorded as provision of allowance for losses on restructuring.

Notes to Consolidated Statements of Changes in Equity

1. Total outstanding stock as of the end date of the current fiscal year

|              |             |
|--------------|-------------|
| Common stock | 177,410,239 |
|--------------|-------------|

2. The amount of treasury stock as of the end date of the current fiscal year

|              |         |
|--------------|---------|
| Common stock | 174,188 |
|--------------|---------|

3. Items related to dividend

(1) Dividend payment

| Resolution   | Type of stock | Total amount of dividend<br>(yen in millions) | Dividend per share<br>(yen) | Base date           | Effective date    |
|--|---------------|---|-----------------------------|---------------------|-------------------|
| Ordinary General Meeting of Shareholders on 27th June 2006 | Common stock  | 1,143   | 6.50                        | 31st March 2006     | 28th June 2006    |
| Board of Directors' Meeting on 6th November 2006           | Common stock  | 1,152   | 6.50                        | 30th September 2006 | 8th December 2006 |

- (2) Dividends whose base dates belong to the current fiscal year and whose effective dates come after the end of the current fiscal year

We have the following matters to be resolved at the Meeting.

| Resolution   | Type of stock | Total amount of dividend (yen in millions) | Source of dividend | Dividend per share (yen) | Base date       | Effective date |
|--|---------------|--|--------------------|--------------------------|-----------------|----------------|
| Ordinary General Meeting of Shareholders on 22nd June 2007 | Common stock  | 1,507                                      | Retained earnings  | 8.50                     | 31st March 2007 | 25th June 2007 |

Notes to per-share information

|                      |           |
|----------------------|-----------|
| Equity per share     | ¥1,059.20 |
| Net income per share | ¥67.43    |

## NON-CONSOLIDATED BALANCE SHEET

31st March 2007

(Yen in millions)

| <u>Assets</u> |  |   |                |
|---------------|--|---|----------------|
| I             | Current assets:                          |   |                |
| (1)           | Cash and cash in banks                   | ¥ | 37,518         |
| (2)           | Notes receivable                         |   | 73,886         |
| (3)           | Accounts receivable-trade                |   | 72,541         |
| (4)           | Accounts receivable-housing construction |   | 966            |
| (5)           | Marketable securities                    |   | 3,000          |
| (6)           | Inventories                              |   | 18,024         |
| (7)           | Real estate for sale                     |   | 11,795         |
| (8)           | Work in process                          |   | 11,824         |
| (9)           | Advance payments                         |   | 697            |
| (10)          | Prepaid expenses                         |   | 776            |
| (11)          | Deferred tax assets                      |   | 4,170          |
| (12)          | Short-term loans                         |   | 79             |
| (13)          | Short-term loans to affiliated companies |   | 7,233          |
| (14)          | Other receivables                        |   | 61,945         |
| (15)          | Other assets                             |   | 69             |
| (16)          | Allowance for doubtful accounts          |   | <u>(1,464)</u> |
|               |  |   | <u>303,059</u> |
| II            | Fixed assets:                            |   |                |
|               | Property, plant and equipment:           |   |                |
| (1)           | Buildings                                |   | 6,417          |
| (2)           | Other structures                         |   | 502            |
| (3)           | Machinery and equipment                  |   | 185            |
| (4)           | Vehicles                                 |   | 17             |
| (5)           | Tools, furniture and fixtures            |   | 1,066          |
| (6)           | Land                                     |   | 6,731          |
| (7)           | Forest                                   |   | 8,401          |
| (8)           | Forestation projects                     |   | 340            |
| (9)           | Construction in progress                 |   | <u>1,040</u>   |
|               |  |   | <u>24,699</u>  |
|               | Intangibles assets:                      |   |                |
| (1)           | Goodwill                                 |   | 114            |
| (2)           | Telephone right                          |   | 173            |
| (3)           | Land lease right                         |   | 36             |
| (4)           | Utilization right of forest road         |   | 266            |
| (5)           | Facility utilization and other rights    |   | 6              |
| (6)           | Computer software                        |   | <u>4,297</u>   |
|               |  |   | <u>4,892</u>   |
|               | Investments and other assets:            |   |                |
| (1)           | Investment securities                    |   | 69,035         |
| (2)           | Stocks of affiliated companies           |   | 13,335         |
| (3)           | Investment in affiliated companies       |   | 144            |
| (4)           | Long-term loans                          |   | 115            |
| (5)           | Long-term loans to employees             |   | 38             |
| (6)           | Long-term loans to affiliated companies  |   | 11,434         |
| (7)           | Receivables and reorganization claim     |   | 1,689          |
| (8)           | Long-term prepaid expenses               |   | 1,290          |
| (9)           | Other investments/assets                 |   | 4,530          |
| (10)          | Allowance for doubtful accounts          |   | <u>(2,823)</u> |
|               |  |   | <u>98,788</u>  |
|               |  |   | <u>128,379</u> |
| Total assets  |  | ¥ | <u>431,438</u> |



NON-CONSOLIDATED BALANCE SHEET

31st March 2007

(Yen in millions)

|                    |   |   |                |
|--------------------|---|---|----------------|
| <u>Liabilities</u> |   |   |                |
| I                  | Current liabilities:  |   |                |
| (1)                | Notes payable   | ¥ | 12,968         |
| (2)                | Accounts payable-trade  |   | 72,248         |
| (3)                | Accounts payable-housing construction                         |   | 77,324         |
| (4)                | Short-term borrowings   |   | 12             |
| (5)                | Other payables  |   | 7,191          |
| (6)                | Income taxes payable  |   | 3,032          |
| (7)                | Accrued consumption taxes                                     |   | 320            |
| (8)                | Accrued expenses  |   | 669            |
| (9)                | Advances from customers                                       |   | 897            |
| (10)               | Advances received for construction                            |   | 37,142         |
| (11)               | Deposits received   |   | 16,025         |
| (12)               | Unearned income   |   | 1,269          |
| (13)               | Allowance for bonuses   |   | 5,600          |
| (14)               | Allowance for bonuses to directors                            |   | 60             |
| (15)               | Warranty reserve for completed construction                   |   | 1,099          |
| (16)               | Allowance for losses on restructuring of affiliated companies |   | <u>9</u>       |
|                    |   |   | <u>235,865</u> |
| II                 | Long-term liabilities:  |   |                |
| (1)                | Long-term borrowings  |   | 2,000          |
| (2)                | Deposits received for guarantees                              |   | 4,494          |
| (3)                | Deferred tax liabilities                                      |   | 13,703         |
| (4)                | Allowance for retirement benefits                             |   | 7,602          |
| (5)                | Allowance for losses of affiliated company operations         |   | 2,561          |
| (6)                | Allowance for losses on restructuring                         |   | 888            |
| (7)                | Other long-term liabilities                                   |   | <u>312</u>     |
|                    |   |   | <u>31,560</u>  |
|                    | Total liabilities   |   | <u>267,425</u> |
| <u>Equity</u>      |   |   |                |
| I                  | Shareholders' equity:   |   |                |
|                    | Common stock  |   | 27,672         |
|                    | Capital surplus:  |   |                |
| (1)                | Capital legal surplus   |   | 26,613         |
| (2)                | Other capital surplus   |   | <u>269</u>     |
|                    |   |   | <u>26,882</u>  |
|                    | Retained earnings:  |   |                |
| (1)                | Legal retained earnings                                       |   | 2,857          |
| (2)                | Other retained earnings                                       |   |                |
| 1)                 | Reserve for deferred income taxes                             |   | 1,421          |
| 2)                 | General reserve   |   | 72,287         |
| 3)                 | Retained earnings carried forward                             |   | <u>10,733</u>  |
|                    |   |   | <u>84,441</u>  |
|                    |   |   | <u>87,298</u>  |
|                    | Treasury stock  |   | <u>(184)</u>   |
|                    |   |   | <u>141,668</u> |
| II                 | Valuation and translation adjustments                         |   |                |
| (1)                | Other securities valuation difference                         |   | 22,311         |
| (2)                | Deferred gains or losses on hedges                            |   | 34             |
|                    |   |   | <u>22,345</u>  |
|                    | Total equity  |   | <u>164,013</u> |
|                    | Total liabilities and equity                                  | ¥ | <u>431,438</u> |

## NON-CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended 31st March 2007

(Yen in millions)

|  |   |                |
|--|---|----------------|
| I Net sales:   |   |                |
| 1. Sales   | ¥ | 450,996        |
| 2. Sales of completed constructions                                      |   | <u>305,747</u> |
|  |   | <u>756,743</u> |
| II Cost of sales:  |   |                |
| 1. Cost of sales   |   | 433,275        |
| 2. Cost of completed construction  |   | 227,687        |
|  |   | <u>660,962</u> |
| Gross profit   |   | <u>95,781</u>  |
| III Selling, general and administrative expenses                         |   | <u>81,341</u>  |
| Operating income   |   | <u>14,440</u>  |
| IV Non-operating income:   |   |                |
| 1. Interest income   |   | 327            |
| 2. Interest on marketable securities                                     |   | 13             |
| 3. Purchase discount   |   | 808            |
| 4. Dividend income   |   | 1,741          |
| 5. Other income  |   | <u>964</u>     |
|  |   | <u>3,852</u>   |
| V Non-operating expenses:  |   |                |
| 1. Interest expense  |   | 105            |
| 2. Sales discount  |   | 620            |
| 3. Appraisal losses on property for sale, etc.                           |   | 137            |
| 4. Other expenses  |   | <u>426</u>     |
|  |   | <u>1,288</u>   |
| Ordinary profit  |   | <u>17,004</u>  |
| VI Extraordinary gain:   |   |                |
| 1. Gains on sales of fixed assets  |   | 11             |
| 2. Gains on sales of investment securities                               |   | 273            |
| 3. Reversal of reserve for loss on restructuring of affiliated companies |   | <u>225</u>     |
|  |   | <u>508</u>     |
| VII Extraordinary loss:  |   |                |
| 1. Losses on sales of fixed assets                                       |   | 155            |
| 2. Losses on retirement of fixed assets                                  |   | 92             |
| 3. Appraisal losses on investment securities                             |   | 5              |
| 4. Provision of allowance for losses on restructuring                    |   | 888            |
| 5. Loss on retirement benefit payment resulted from merger               |   | 145            |
| 6. Loss from capital reduction of combined stock                         |   | <u>286</u>     |
|  |   | <u>1,570</u>   |
| Income before income taxes   |   | <u>15,942</u>  |
| Income taxes   |   |                |
| - Current  |   | 2,750          |
| - Deferred   |   | <u>3,660</u>   |
| Net income   | ¥ | <u>9,532</u>   |

**NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31st March 2007

(Yen in millions)

|  | Shareholders' equity |                       |                       |                         |                                   |                 |                                   |                | Valuation and translation adjustments |                                       | Total Equity |                                    |
|--|----------------------|-----------------------|-----------------------|-------------------------|-----------------------------------|-----------------|-----------------------------------|----------------|---------------------------------------|---------------------------------------|--------------|------------------------------------|
|  | Common stock         | Capital surplus       |                       | Legal retained earnings | Retained earnings                 |                 |                                   | Treasury stock | Total Shareholders' equity            | Other securities valuation difference |              | Deferred gains or losses on hedges |
|  |                      | Capital legal surplus | Other capital surplus |                         | Other Retained earnings           |                 |                                   |                |                                       |                                       |              |                                    |
|  |                      |                       |                       |                         | Reserve for advanced depreciation | General reserve | Retained earnings carried forward |                |                                       |                                       |              |                                    |
| Balance as of 31st March 2006                        | 27,672               | 25,651                | 4                     | 2,857                   | 1,638                             | 71,787          | 3,825                             | (617)          | 132,817                               | 21,354                                | -            | 154,171                            |
| Changes of items during the period                   |                      |                       |                       |                         |                                   |                 |                                   |                |                                       |                                       |              |                                    |
| Provision of general reserve (Note)                  |                      |                       |                       |                         |                                   | 500             | (500)                             |                | -                                     |                                       |              | -                                  |
| Reversal of reserve for advanced depreciation (Note) |                      |                       |                       |                         | (217)                             |                 | 217                               |                | -                                     |                                       |              | -                                  |
| Dividends from retained earnings (Note)              |                      |                       |                       |                         |                                   |                 | (1,143)                           |                | (1,143)                               |                                       |              | (1,143)                            |
| Dividends from retained earnings                     |                      |                       |                       |                         |                                   |                 | (1,152)                           |                | (1,152)                               |                                       |              | (1,152)                            |
| Bonuses to directors (Note)                          |                      |                       |                       |                         |                                   |                 | (45)                              |                | (45)                                  |                                       |              | (45)                               |
| Net income   |                      |                       |                       |                         |                                   |                 | 9,532                             |                | 9,532                                 |                                       |              | 9,532                              |
| Purchase of treasury stock                           |                      |                       |                       |                         |                                   |                 |                                   | (130)          | (130)                                 |                                       |              | (130)                              |
| Disposal of treasury stock                           |                      |                       | 1                     |                         |                                   |                 |                                   | 5              | 6                                     |                                       |              | 6                                  |
| Increase or decrease by business combination         |                      | 962                   | 264                   |                         |                                   |                 |                                   | 557            | 1,783                                 |                                       |              | 1,783                              |
| Net changes of items other than shareholders' equity |                      |                       |                       |                         |                                   |                 |                                   |                | -                                     | 957                                   | 34           | 991                                |
| Total changes of items during the period             | -                    | 962                   | 265                   | -                       | (217)                             | 500             | 6,909                             | 432            | 8,851                                 | 957                                   | 34           | 9,841                              |
| Balance as of 31st March 2007                        | 27,672               | 26,613                | 269                   | 2,857                   | 1,421                             | 72,287          | 10,733                            | (184)          | 141,668                               | 22,311                                | 34           | 164,013                            |

(Note) Appropriation of retained earnings approved at the Ordinary General Meeting of Shareholders in June 2006.

## Notes to Non-Consolidated Financial Statements

### Summary of Significant Accounting Policies

#### 1. Valuation Basis and Method of Securities

##### a. Held-to-maturity securities

Stated at amortized cost using the straight-line method.

##### b. Investment in subsidiaries and affiliated companies

Stated at cost based on the moving-average method.

##### c. Other securities with a market value

Principally carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Other securities valuation difference." The cost of other securities sold is computed based on the moving-average method.

##### Other securities with no market value

Carried at cost based on the moving-average method.

#### 2. Valuation Basis and Method of Inventories, Real estate for sale and Work in process

Inventories are carried at cost using the moving-average method. Real estate for sale and work in process are stated at cost using the specific cost method.

#### 3. Depreciation Method

##### Property, plant and equipment

Depreciated using the declining-balance method. Buildings (excluding building fixtures) acquired on or after 1st April 1998 are depreciated using the straight-line method.

##### Intangible assets

Amortized using straight-line method. Computer software for internal use is amortized over estimated useful life (5 years) using straight-line method.

#### 4. Calculation Basis of Allowances

##### (1) Allowance for doubtful accounts

An allowance for doubtful accounts has been established for the possible losses from uncollectible monetary rights such as receivables and loans. An allowance is estimated based on individual evaluation for doubtful monetary rights, and by the historical rate of credit loss for normal monetary rights.

##### (2) Allowance for bonuses

An allowance for bonuses has been provided based on estimated bonuses to be paid to employees which should be charged to income in the current year.

##### (3) Allowance for bonuses to directors

To provide for the payment of bonuses to directors, the estimated amount of directors' bonus payments during the fiscal year is provided to the allowance for bonuses to directors.

(4) Warranty reserve for completed construction

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

(5) Allowance for losses on restructuring of affiliated companies

An allowance for losses on restructuring of affiliated companies has been provided based on loss estimated.

(6) Allowance for retirement benefits

The Company established an allowance for retirement benefits to prepare a disbursement scheme of such benefits for employees. We posted this allowance based on the value of retirement benefit obligations and the estimated value of pension assets at the end of the current fiscal year. We process unrecognized actuarial losses en bloc for the year in which they occur.

(7) Allowance for losses of affiliated company operations

An allowance for losses of affiliated companies' operations has been provided to prepare for the possible losses such as operations of golf courses, etc.

(8) Allowance for losses on restructuring

An allowance has been provided for the possible losses incurred as a result of restructuring.

5. Accounting for Leases

Financing leases, other than those under which the ownership of the leased assets is regarded to be transferred to the lessee, are accounted for as ordinary operating leases.

6. Accounting for Hedge

(1) Accounting for hedge

Hedged foreign trade transactions are accounted for under the allocation method. (The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rate.)

(2) Instruments used for hedge

In order to manage risks arising from fluctuations in foreign currency exchange rates, the Company enters into foreign exchange contracts.

(3) Hedged items

The Company hedges certain foreign trade transactions including forecasted transactions within the scope of established company policy.

(4) Effectiveness of hedge

As hedging through foreign exchange contracts is recognized as highly effective, the evaluation of its effectiveness is omitted.

7. Other important items for compiling financial statements

Consumption Tax

Transactions subject to the consumption tax and the local consumption tax are recorded under net tax method.

Changes in Important Matters on Which the Preparation of Non-consolidated Financial Statements is Based

1. Accounting standards related to the presentation of equity in balance sheet

Starting the fiscal year under review, we adopted the “Accounting Standard for Presentation of Equity in the Balance Sheet” (The Accounting Standards Board of Japan, 9th December 2005 Accounting Standards No. 5.) and “Guidance on Accounting Standard for Presentation of Equity in the Balance Sheet” (The Accounting Standards Board of Japan, 9th December 2005 Guidance Accounting Standards No. 8.). This does not have any effects on profit and loss. The amount which falls under the former title “Shareholders’ equity” is ¥163,979 million. Due to the revision of the Regulations of Consolidated Financial Statements, Equity in this fiscal year’s consolidated balance sheet was prepared pursuant to the revised Regulations of Non-consolidated Financial Statements.

2. Accounting standards related to bonuses to directors

Starting the fiscal year under review, we adopted the “Accounting Standard for Bonuses to Directors” (The Accounting Standards Board of Japan, 29th November 2005 Accounting Standards No. 4.). This resulted in a decrease of ¥60 million in each of operating income, ordinary income and income before income taxes.

3. Accounting standards related to business combination

Starting the fiscal year under review, we adopted the “Accounting Standard concerning Business Combination” (The Accounting Standards Board of Japan, 31st October 2003.) and “Guidance on Accounting Standard concerning Business Combination and Separation” (The Accounting Standards Board of Japan, 27th December 2005 Guidance on Accounting Standards No. 10.).

Notes to Non-consolidated Balance Sheet

|  |                   |
|--|-------------------|
| 1. Accumulated depreciation on property, plant and equipment                     | ¥9,955 million    |
| 2. Accumulated advanced depreciation on property, plant and equipment            | ¥689 million      |
| 3. Amount guaranteed by the Company  |                   |
| (1) Guarantee on loans, etc. of affiliated companies from financial institutions |                   |
| Sumitomo Forestry Seattle, Inc.  | ¥6,734 million    |
| PT. Kutai Timber Indonesia   | ¥5,201 million    |
| ALPINE MDF INDUSTRIES PTY LTD  | ¥3,004 million    |
| SUMITOMO FORSTRY (SINGAPORE) LTD.  | ¥2,013 million    |
| SUMITOMO FORSTRY NZ LIMITED  | ¥455 million      |
| Toyo Plywood Co., Ltd.   | ¥315 million      |
| PT.AST INDONESIA   | ¥236 million      |
| Sumikyo Co. Ltd.   | ¥223 million      |
| PARAGON WOOD PRODUCT (DALIAN) CO., LTD.  | ¥57 million       |
| <u>Sumikyo Wintec Co., Ltd.</u>  | <u>¥4 million</u> |
| Total  | ¥18,242 million   |

|  |                 |
|--|-----------------|
| (2) Guarantee on other loans, etc. from financial institutions |                 |
| Purchasers with housing loans applied                          | ¥18,471 million |
| Others   | ¥0 million      |
| Total  | ¥18,471 million |

|  |                 |
|--|-----------------|
| 4. Short-term monetary receivables due from affiliated companies | ¥36,327 million |
| Long-term monetary receivables due from affiliated companies     | ¥11,434 million |
| Short-term monetary payables due to affiliated companies         | ¥40,313 million |

5. Notes matured on the end date of the fiscal year

Notes matured on the end date of the fiscal year are settled on the clearing date. Since the end date of the current period was a bank holiday, the amount of the notes maturing on the year end date is included in the year end balance as shown below.

|                  |                 |
|------------------|-----------------|
| Notes receivable | ¥10,698 million |
| Notes payable    | ¥3,392 million  |

Notes to Non-consolidated Profit and Loss Statement

|   |                  |
|---|------------------|
| 1. Operating transactions with affiliated companies |                  |
| Sales   | ¥30,905 million  |
| Purchases   | ¥115,251 million |
| Non-operating income                                |                  |
| Interest income                                     | ¥285 million     |
| Dividend income                                     | ¥1,055 million   |
| Other income  | ¥137 million     |
| Non-operating expense                               | ¥68 million      |

2. Others

The estimated amount to be borne by the Company related to the Land Readjustment Project is recorded as provision of allowance for losses on restructuring.

Notes to Non-consolidated Statements of Changes in Equity

|   |         |
|---|---------|
| Total outstanding stock as of the end date of the current fiscal year |         |
| Common stock  | 174,188 |

Notes related to tax effect accounting

Details of the occurrence of deferred tax assets and deferred tax liabilities by major cause

|  |                  |
|--|------------------|
| Deferred tax assets  |                  |
| Allowance for doubtful accounts                                    | ¥1,371 million   |
| Reserve for bonuses  | ¥2,504 million   |
| Appraisal losses on property for sale, etc.                        | ¥2,635 million   |
| Allowance for retirement benefits                                  | ¥3,041 million   |
| Allowance for losses of affiliated company operations              | ¥1,024 million   |
| Appraisal losses on stocks of affiliates                           | ¥2,536 million   |
| Appraisal losses on investment securities and golf club membership | ¥1,378 million   |
| Others   | ¥2,850 million   |
| Subtotal deferred tax assets                                       | ¥17,339 million  |
| Valuation reserve  | ¥(9,331 million) |
| Total deferred tax assets  | ¥8,008 million   |
| Deferred tax liabilities   |                  |
| Accumulated advanced depreciation on fixed assets                  | ¥946 million     |
| Gain on contribution of securities to retirement benefit trust     | ¥1,590 million   |
| Other securities valuation difference                              | ¥13,358 million  |
| Others   | ¥1,646 million   |
| Total deferred tax liabilities                                     | ¥17,541 million  |
| Net deferred tax liabilities                                       | ¥9,533 million   |

Notes to fixed assets used under lease

1. Amount equivalent to acquisition value, amount equivalent to accumulated depreciation and amount equivalent to balance as of the end of fiscal year of leased assets (yen in millions)

|                         | Amount equivalent to acquisition value | Amount equivalent to accumulated depreciation | Amount equivalent to balance as of the end of fiscal year |
|-------------------------|--|---|---|
| Buildings               | 11,409                                 | 4,864   | 6,545   |
| Machinery and equipment | 57                                     | 37  | 20  |
| Vehicles                | 755                                    | 316   | 439   |
| Equipment               | 2,181                                  | 938   | 1,242   |
| Computer software       | 5                                      | 4   | 1   |
| Total                   | 14,407                                 | 6,160   | 8,247   |

2. Amount equivalent to the year-end balance of prepaid lease

|                    |                |
|--------------------|----------------|
| Less than one year | ¥3,252 million |
| Over one year      | ¥5,097 million |
| Total              | ¥8,349 million |

3. Lease expenses, amount equivalent to depreciation and amount equivalent to interest expenses

|  |                |
|--|----------------|
| Lease expenses                         | ¥3,910 million |
| Amount equivalent to depreciation      | ¥3,643 million |
| Amount equivalent to interest expenses | ¥156 million   |

4. Calculation method for amount equivalent to depreciation

Straight-line method using lease term as service life with zero residual value



## 5. Calculation method for amount equivalent to interest payment

We assumed the difference between the total lease payment and the amount equivalent to the acquisition value of a leased asset as the amount equivalent to interest payment, and used interest method for allocation to each period.

## Notes to transactions with parties concerned

### 1. Affiliates

(yen in millions)

| Type       | Name of company                              | Address           | Capital amount | Business description           | Share of voting rights the Company owns (or owned by affiliate) | Relationship              |  | Transaction description                        | Transaction amount | Accounting item   | Year-end balance |
|------------|--|-------------------|----------------|--------------------------------|---|---------------------------|--|--|--------------------|---|------------------|
|            |  |                   |                |                                |   | Interlocking directorate  | Business relationship  |  |                    |   |                  |
| Subsidiary | Sumitomo Forestry Home Engineering Co., Ltd. | Chiyoda-ku, Tokyo | 75             | Housing and related operations | Direct 100.0%   | 13 interlocking directors | Paid supply of materials and construction of ordered housing | Construction of housing ordered by the Company | 65,944             | Accounts receivable<br>Accounts payable on construction | 19,387<br>19,744 |
| Subsidiary | Sumitomo Forestry Home Tech Co. Ltd.         | Chiyoda-ku, Tokyo | 100            | Housing and related operations | Direct 100.0%   | 5 interlocking directors  | -  | Deposit of surplus fund to the Company         | -                  | Deposits received                                       | 6,720            |

(Notes)

1. Transaction amount does not include consumption tax, and year-end balance includes consumption tax.
2. Transaction conditions and decision policy on transaction conditions are similarly treated as general transaction conditions.

### 2. Directors

(yen in millions)

| Type     | Name of company | Address | Asset | Occupation              | Share of voting rights the Company owns (or owned by affiliate) | Relationship             |                       | Transaction description          | Transaction amount | Accounting item | Year-end balance |
|----------|-----------------|---------|-------|-------------------------|---|--------------------------|-----------------------|----------------------------------|--------------------|-----------------|------------------|
|          |                 |         |       |                         |   | Interlocking directorate | Business relationship |                                  |                    |                 |                  |
| Director | Hideki Nose     | -       | -     | Director of the Company | Direct 0.0%   | -                        | -                     | Housing construction contracting | 29                 | -               | -                |

(Notes)

1. Transaction amount and year-end balance include consumption tax.
2. Transaction conditions and decision policy on transaction conditions are similarly treated as general transaction conditions.

## Notes to per-share information

|                      |         |
|----------------------|---------|
| Equity per share     | ¥925.39 |
| Net income per share | ¥53.76  |

## Notes to business combination

1. Names and business descriptions of constituent companies in business combination, legal form of business combination, transaction overview including the name of the combined company and transaction purposes

(1) Constituent companies in business combination and their business description

1) Combinor

Name: Sumitomo Forestry Co., Ltd.

Business description: Mountain forests management/Trade of raw timber, sawn wood, chips, ordinary plywood, fabricated plywood, fiberboard, metal wood and housing equipment/Construction of ordered housing/Trade of ready-built housing, trade of interior products/Construction, trade and lease of collective housing and buildings

2) Combinee

Name: Ataka Kenzai Co., Ltd.

Business description: Sale of various housing construction materials and housing equipment

(2) Legal form of business combination and name of combined company

By a business combination with Sumitomo Forestry Co., Ltd. as the surviving company and Ataka Kenzai Co., Ltd. as the dissolved company, Ataka Kenzai Co., Ltd. has been liquidated. The name of the combined company is Sumitomo Forestry Co., Ltd.

(3) Overview of the transaction including its objectives

1) Objectives of the transaction

In order to seek the synergy effect of effectively using the business infrastructures, expertise and management resources in construction material distribution business of the both companies and to provide our customers with higher-quality services than ever, the Company and Ataka Kenzai Co., Ltd., which was one of our consolidated subsidiaries, concluded an agreement of amalgamation as of 26th December 2005; the Company, by the short-form merger method as stipulated by Article 413-3, Paragraph 1 of Pre-Commercial Code Revision, and Ataka Kenzai Co., Ltd., obtaining approval on the agreement of amalgamation at the extraordinary shareholders' meeting held on 26th January 2006, amalgamated on 1st April 2006.

2) Transaction overview

(a) Merger ratio, type and number of shares issued with merger

The Company issued 806,358 shares of common stock; along with 688,242 shares of treasury common stock, a total of 1,494,600 shares were allocated to shareholders listed in the final shareholders' list of Ataka Kenzai Co., Ltd. on the previous date of the amalgamation date with the ratio of six shares of common stock of Sumitomo Forestry Co., Ltd. per share of common stock of Ataka Kenzai Co., Ltd. that they own. We did not allocate the Company's common stock to treasury stock owned by Ataka Kenzai Co., Ltd. and the common stock of Ataka Kenzai Co., Ltd. that the Company owns.

(b) Amounts of Shareholders' equity, legal reserve and voluntary reserve to be increased

Shareholders' capital: There is no increase in shareholders' capital with the amalgamation.

Capital legal surplus: The amount of capital legal surplus to be increased is the profit from amalgamation.

(c) The amounts of assets and liabilities to be inherited

The Company took over all of the assets, liabilities, and rights and obligations of Ataka Kenzai Co., Ltd. on the amalgamation date. The financial condition of Ataka Kenzai Co., Ltd. as of 31st March 2006 was as follows.

|                             |                 |
|-----------------------------|-----------------|
| Total assets                | ¥47,552 million |
| Total liabilities           | ¥41,204 million |
| Total shareholders' capital | ¥6,349 million  |

2. Overview of account processing implemented

(1) Accounting type of business combination

We treated the account processing as a transaction under common control under business combination accounting; we inserted the assets and liabilities that we accepted from Ataka Kenzai Co., Ltd. at a reasonable book value.

(2) Amount of "goodwill" and its years of depreciation

With this amalgamation, we recorded goodwill of ¥142 million with five years of depreciation.