

[TRANSLATION]

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

May 29, 2008

Dear Fellow Shareholders:

**NOTICE OF THE 68TH ORDINARY GENERAL
MEETING OF SHAREHOLDERS**

We are pleased to invite you to attend our 68th 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, 20th June 2008 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 68th business term (from 1st April 2007 to 31st March 2008); and
 2. To report the results of audits of the Consolidated Financial Statements for the 68th 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 surplus
- 2nd Item of Business :** Payment of bonus to directors for the 68th business term
- 3rd Item of Business :** Amendments to the Articles of Incorporation
- 4th Item of Business :** Election of seven Directors
- 5th Item of Business :** Election of three Statutory Auditors

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 the appropriation of surplus

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

1. Year-end Dividend for the 68th Business term

The Board of Directors declared payment of an year-end dividend for the 68th Business term of 7.50 yen per share, in line with the Company's basic policy to pay dividends on a stable and continuous basis, considering the operating performance for the 68th business term and other relevant factors together and in view of returning profits to shareholders.

Accordingly, the annual dividend for the 68th 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:

7.50 yen per Ordinary Share
Total amount: 1,328,792,948 yen

(3) Date of which the appropriation of the surplus would be effective:

June 23rd, 2008

2. Distribution of surplus

(1) The item of surplus and the amount to be increased:

Surplus from profit carried forward 2,000,000,000 yen

(2) The item of surplus and the amount to be decreased:

Other Reserves 2,000,000,000 yen

2nd Item of Business : Payment of Bonus to Directors for the 68th Business Term

The Company intends to pay bonus totaling 35,000,000 yen to seven Directors in office at the end of the 68th Business term considering the business performance for the 68th Business term and other relevant factors comprehensively.

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

1. Reasons for the proposed amendments

- (1) In order to assure that the shareholder may effectively exercise his/her rights, we propose to provide a new provision to provide that the execution of rights shall be made in writing, and to expressly provide that other methods for exercising rights shall be provided in the Share Handling Regulations provided by the Board of Directors.

(2) Renumber the Articles accompanying the establishment of a new Article.

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>CHAPTER II SHARES</p> <p>[Newly created.]</p> <p>Article 14. to 42. [Omitted]</p>	<p>CHAPTER II SHARES</p> <p><u>Article 14. (The Method for a Shareholder to Exercise His/Her Rights)</u></p> <p><u>If a shareholder exercises his/her right towards the Company or the Company's director pursuant to laws or this Articles of Incorporation, such exercise of right shall be made in writing. Other methods for exercising rights shall be provided in the Share Handling Regulations provided by the Board of Directors.</u></p> <p>Article 15. to 43. [No change]</p>

Note: The Share Handling Regulations provided by the Board of Directors is posted on the Company's homepage (<http://sfc.jp/>).

4th Item of Business : Election of seven Directors

The term of office of all of the seven Directors will expire at the closing of the general meeting. The Company recommends that shareholders vote FOR the election of seven Directors.

Candidates for the Directors are as follows.

(Current titles and responsibilities underscored)

No.	Name (Date of birth)	Brief personal history, other representations, and title and responsibilities while actually serving as the Director of the Company	No. of shares held
1	Ryu Yano (April 21, 1940)	<p>April 1963 <u>Joined the Company</u></p> <p>December 1988 <u>Director</u></p> <p>June 1992 <u>Managing Director</u></p> <p>June 1995 <u>Senior Executive Director</u></p> <p>April 1999 <u>President/Director</u></p> <p>June 2002 <u>President and Executive Officer</u></p>	55,675 shares

No.	Name (Date of birth)	Brief personal history, other representations, and title and responsibilities while actually serving as the Director of the Company	No. of shares held
2	Mamoru Inoue (August 12, 1948)	<p>April 1972 Joined the Company</p> <p>November 2001 President and Director of Sumitomo Forestry Crest Co., Ltd.</p> <p>April 2004 General Manager of Business Administrative Division, Business Headquarters and General Manager of Business Management Division, Business Headquarters</p> <p>June 2004 Executive Officer Appointed as Asst. Executive Manager of Business Headquarters and General Manager of Business Administrative Division, Business Headquarters and General Manager of Business Management Division, Business Headquarters</p> <p>October 2004 Appointed as Asst. Executive Manager of Business Headquarters and General Manager of Business Management Division, Business Headquarters</p> <p>April 2005 Appointed as Asst. Executive Manager of Business Headquarters and General Manager of Building Materials Division, Business Headquarters</p> <p>August 2005 Counselor, Ataka Kenzai Co., Ltd.</p> <p>October 2005 President, Ataka Kenzai Co., Ltd.</p> <p>April 2006 <u>Managing Executive Officer</u> Appointed as Executive Manager of Business Development Headquarters</p> <p>June 2006 <u>Director</u></p> <p>April 2007 <u>Appointed as Executive Manager of Overseas Business Headquarters</u></p> <p>(Representations in other companies) <u>Chairman, Nelson Pine Industries Limited</u></p>	4,800 shares
3	Hideki Nose (July 4, 1949)	<p>April 1972 Joined the Company</p> <p>June 2002 Executive Officer</p> <p>April 2003 Appointed as Asst. Executive Manager of Housing Headquarters and General Manager of Production & Building Materials Procurement Division, Housing Headquarters and General Manager of Product Development Division, Housing Headquarters</p> <p>April 2004 <u>Managing Executive Officer</u> Appointed as Executive Manager of International Business Headquarters</p> <p>June 2004 <u>Director</u></p> <p>April 2006 Appointed as Executive Manager of Collective Housing Headquarters</p> <p>April 2007 <u>Responsible for Intellectual Property and Tsukuba Research Institute</u> <u>Appointed as Executive Manager of Forestry and Environmental Headquarters</u></p>	5,625 shares

No.	Name (Date of birth)	Brief personal history, other representations, and title and responsibilities while actually serving as the Director of the Company	No. of shares held
4	Hideyuki Kamiyama (November 29, 1951)	<p>April 1975 Joined the Company</p> <p>April 2003 General Manager of Housing Administrative Division, Housing Headquarters</p> <p>April 2004 General Manager of Housing Administrative Division, Housing Headquarters and General Manager of Product Development Division, Housing Headquarters</p> <p>June 2004 Executive Officer Appointed as Asst. Executive Manager of Housing Headquarters and General Manager of Housing Administrative Division, Housing Headquarters and General Manager of Product Development Division, Housing Headquarters</p> <p>April 2005 <u>Managing Executive Officer</u> Appointed as Executive Manager of Housing Headquarters</p> <p>June 2005 <u>Director</u></p> <p>April 2007 <u>Responsible for Corporate Planning, General Administrative, Finance, Information Systems and Internal Audit</u></p>	8,400 shares
5	Shigehiko Shiozaki (May 16, 1952)	<p>April 1975 Joined the Company</p> <p>April 2002 General Manager of Osaka Office, Business Headquarters</p> <p>April 2004 General Manager of Personal Division</p> <p>June 2005 Executive Officer Appointed as General Manager of Personal Division</p> <p>April 2006 <u>Managing Executive Officer</u></p> <p>June 2006 <u>Director</u></p> <p>April 2007 <u>Appointed as Executive Manager of Housing Business Headquarters</u></p>	9,800 shares
6	Hitoshi Hayano (July 10, 1953)	<p>April 1977 Joined the Company</p> <p>April 2003 General Manager of Corporate Planning Division</p> <p>June 2005 Executive Officer Appointed as General Manager of Corporate Planning Division</p> <p>April 2006 <u>Managing Executive Officer</u></p> <p>June 2006 <u>Director</u></p> <p>April 2007 <u>Appointed as Executive Manager of Real Estate Business Headquarters</u></p>	11,300 shares
7	Akira Ichikawa (November 12, 1954)	<p>April 1978 Joined the Company</p> <p>April 2002 General Manager of International Business Division, Business Headquarters</p> <p>April 2004 General Manager of International Business Division, International Business Headquarters</p> <p>April 2005 General Manager of Housing Administrative Division, Housing Headquarters</p> <p>April 2007 General Manager of Corporate Planning Division</p> <p>June 2007 <u>Executive Officer</u> <u>Appointed as General Manager of Corporate Planning Division</u></p>	5,900 shares

Note: There is no special interest reportable between each candidate and the Company.

5th Item of Business : Election of three Statutory Auditors

Statutory Auditors Mr. Shuji Kitamura and Mr. Toshio Kohigashi will resign from office at the closing of this meeting. The term of office for Mr. Hiroshi Miki, Statutory Auditor will expire at the closing of this meeting. We propose to elect three Statutory Auditors.

The candidates are as follows.

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

(Current titles and responsibilities underscored)

No.	Name (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
1	Shoichi Takahashi (September 18, 1948)	<p>April 1971 Joined the Company April 2003 Managing Executive Officer Appointed as Executive Manager of Business Headquarters June 2004 <u>Director</u> April 2005 Senior Executive Officer August 2005 Appointed as Executive Manager of Business Headquarters and General Manager of Building Materials Divisions, Business Headquarters April 2006 Appointed as Executive Manager of Business Headquarters April 2007 <u>Vice President and Executive Officer</u> <u>Appointed as Executive Manager of Timber and</u> <u>Building Materials Business Headquarters</u></p> <p>(Representations in other corporate bodies) <u>Chairman of Japan Lumber Importers' Association</u></p>	20,100shares
2	Satoru Takeno (December 12, 1951)	<p>April 1988 Joined the Company November 2004 Managing Director of Sumitomo Forestry System Housing Co., Ltd. April 2005 <u>General Manager of General Administrative</u> <u>Division</u> June 2007 <u>Councilor</u></p>	3,000 shares
3	Hiroshi Miki (June 2, 1943)	<p>April 1966 Joined The Sumitomo Bank, Ltd. October 1968 Retired from the bank. April 1974 Admitted to practice the law June 1995 <u>Statutory Auditor of the Company</u></p>	0

Notes:

1. There is no special interest between the candidates and the Company.
2. Mr. Shoichi Takahashi is scheduled to resign from his post as Chairman of Japan Lumber Importers' Association on June 17, 2008.
3. Mr. Hiroshi Miki is a candidate for non-executive statutory auditor set forth in Article 2, Paragraph 3, Item 8 of the Enforcement Rules of the Corporation Act.
4. The Company nominated Mr. Hiroshi Miki as a non-executive statutory auditor in anticipation that he would appropriately perform audit operations from his professional insight backed by his rich experience as a corporate legal affairs as a lawyer.
5. Mr. Hiroshi Miki was never involved with the management of the Company other than serving as a non-executive statutory auditor in the past. The Company, however, believes that he is well qualified to continue to perform audit operations appropriately after being reappointed, from his outstanding performance as a non-executive statutory auditor, where he expressed his opinion on business risks with professional insight at the meetings of the Company's Board of Directors and Board of Statutory Auditors.
6. Mr. Hiroshi Miki is currently our non-executive statutory auditor and he shall have served as our non-executive statutory auditor for a total 13 years as of the closing of this meeting.
7. The Company executes an agreement with each of the non-executive statutory auditors pursuant to

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. Hiroshi Miki again in the same content on condition that this item of business is approved as proposed.

CONSOLIDATED BALANCE SHEET

31st March 2008

(Yen in millions)

<u>Assets</u>	
I Current assets:	
(1) Cash and cash in banks	¥ 39,591
(2) Notes receivable and accounts receivable-trade	115,668
(3) Accounts receivable-housing construction	4,640
(4) Marketable securities	15,000
(5) Inventories	22,985
(6) Real estate for sale	14,865
(7) Work in process	27,760
(8) Deferred tax assets	5,588
(9) Short-term loans	2,400
(10) Other receivables	44,962
(11) Other assets	4,187
(12) Allowance for doubtful accounts	<u>(631)</u>
	<u>297,014</u>
II Fixed assets:	
Property, plant and equipment:	
(1) Buildings and other structures	21,851
(2) Machinery, equipment and vehicles	18,842
(3) Land	20,644
(4) Construction in progress	5,552
(5) Other property, plant and equipment	<u>13,031</u>
	<u>79,921</u>
Intangibles assets:	
(1) Goodwill	1,025
(2) Other intangibles assets	<u>5,399</u>
	<u>6,423</u>
Investments and other assets:	
(1) Investment securities	47,890
(2) Long-term loans	8,210
(3) Deferred tax assets	1,599
(4) Other investments/assets	11,011
(5) Allowance for doubtful accounts	<u>(1,339)</u>
	<u>67,371</u>
	<u>153,715</u>
Total assets	¥ <u>450,730</u>

CONSOLIDATED BALANCE SHEET

31st March 2008

(Yen in millions)

Liabilities

I	Current liabilities:		
(1)	Notes payable and accounts payable-trade	¥	83,346
(2)	Accounts payable-housing construction		64,852
(3)	Short-term borrowings		17,405
(4)	Income taxes payable		3,012
(5)	Advances received for construction		40,378
(6)	Deferred tax liabilities		71
(7)	Allowance for bonuses		7,637
(8)	Allowance for bonuses to directors		42
(9)	Warranty reserve for completed construction		1,327
(10)	Other liabilities		<u>14,787</u>
			<u>232,858</u>
II	Long-term liabilities:		
(1)	Long-term borrowings		8,411
(2)	Deferred tax liabilities		6,377
(3)	Allowance for retirement benefits		15,063
(4)	Retirement allowance for directors		161
(5)	Allowance for losses on restructuring		888
(6)	Other long-term liabilities		<u>13,884</u>
			<u>44,784</u>
	Total liabilities		<u>277,641</u>
	<u>Equity</u>		
I	Shareholders' equity		
(1)	Common stock		27,672
(2)	Capital surplus		26,876
(3)	Retained earnings		107,198
(4)	Treasury stock		<u>(249)</u>
			<u>161,497</u>
II	Valuation and translation adjustments		
(1)	Other securities valuation difference		9,085
(2)	Deferred gains or losses on hedges		59
(3)	Foreign currency translation adjustment account		<u>2,278</u>
			<u>11,422</u>
III	Minority interests		169
	Total equity		<u>173,089</u>
	Total liabilities and equity	¥	<u>450,730</u>

CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended 31st March 2008

(Yen in millions)

I Net sales:		
1. Sales	¥	496,478
2. Sales of completed construction		<u>364,878</u>
		<u>861,357</u>
II Cost of sales:		
1. Cost of sales		456,481
2. Cost of completed construction		<u>269,599</u>
		<u>726,080</u>
Gross profit		<u>135,277</u>
III Selling, general and administrative expenses		<u>128,041</u>
Operating income		<u>7,235</u>
IV Non-operating income:		
1. Interest income		756
2. Purchase discount		833
3. Dividend income		814
4. Other income		<u>1,326</u>
		<u>3,728</u>
V Non-operating expenses:		
1. Interest expenses		1,444
2. Sales discount		689
3. Appraisal losses on property for sale, etc.		177
4. Investment loss from equity method		179
5. Other expenses		<u>817</u>
		<u>3,305</u>
Ordinary profit		<u>7,659</u>
VI Extraordinary gain:		
1. Gains on sales of fixed assets		155
2. Gains on sales of investment securities		<u>2,247</u>
		<u>2,401</u>
VII Extraordinary loss:		
1. Losses on retirement of fixed assets		152
2. Appraisal losses on investment securities		3,837
3. Write-off of goodwill		<u>470</u>
		<u>4,459</u>
Income before income taxes and minority interests		<u>5,601</u>
Income taxes - Current		5,156
- Deferred		(661)
Minority interests in earnings		<u>(8)</u>
Net income	¥	<u>1,115</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st March 2008

(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 2007	27,672	26,882	108,919	(184)	163,288	22,482	155	1,804	1,125	188,855
Changes of items during the period										
Dividends from retained earnings			(2,835)		(2,835)					(2,835)
Net income			1,115		1,115					1,115
Purchase of treasury stock				(95)	(95)					(95)
Disposal of treasury stock		(6)		30	24					24
Net changes of items other than shareholders' equity						(13,397)	(96)	474	(956)	(13,975)
Total changes of items during the period	-	(6)	(1,720)	(65)	(1,791)	(13,397)	(96)	474	(956)	(15,766)
Balance as of 31st March 2008	27,672	26,876	107,198	(249)	161,497	9,085	59	2,278	169	173,089

Notes to Consolidated Financial Statements

Significant Accounting Policies Regarding the Preparation of Consolidated Financial Statements

1. Scope of consolidation

There are 51 consolidated subsidiaries. Major consolidated subsidiaries are 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. The Company acquired Kowa Lumber Co., Ltd., and established Fillcare Co., Ltd. and Meikan Honchosha PFI Co., Ltd in this consolidated fiscal year. As a consequence of these new investments, four subsidiaries including subsidiary of Kowa Lumber Co., Ltd. are added to the consolidated subsidiaries from this fiscal year.

PARAGON WOOD PRODUCT (DALIAN) CO., LTD. and PARAGON WOOD PRODUCT (SHANGHAI) CO., LTD. , which were affiliated companies in the last consolidated fiscal year, are also added to the consolidated subsidiaries from this fiscal year as a result of the additional share purchase of these two companies, which gave the Company the control power of these two companies.

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, BENNETT-SFS LLC. Cascadia Resort Communities LLC and Home Construction Succession Fund Limited Partnership were newly established in this consolidated fiscal year. These corporate bodies are added to the affiliated companies from this fiscal year.

PARAGON WOOD PRODUCT (DALIAN) CO., LTD. and PARAGON WOOD PRODUCT (SHANGHAI) CO., LTD. are excluded from affiliated companies and are treated as the subsidiaries from this consolidated fiscal year as noted above.

- (2) 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

There are three different accounting period of consolidated subsidiaries. Each company made the financial statement based on its specific accounting period. The fiscal year for two consolidated subsidiaries, Daiichi Sansho Co., Ltd. and Nihei & Co. ends on 20th March. The closing date of Kowa Lumber Co., Ltd. and all foreign consolidated subsidiaries falls on 31st December. The fiscal year of the rest of all other domestic consolidated subsidiaries falls on 31st March. These financial statements are adopted by the Company for making 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 and currency swap transaction.

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 and currency swap transaction 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

Goodwill is amortized using the straight-line method over the period that is affected by it, up to a maximum of 20 years. 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

(Depreciation method for Property, plant and equipment)

In accordance with the revision of the Corporation Tax Law, the Company and its domestic consolidated subsidiaries have changed the depreciation method for Property, plant and equipment acquired on or after 1st April, 2007 pursuant to the revised Corporation Tax Law beginning this consolidated fiscal year. Its effect on earnings is insignificant.

(Additional information)

The Company and its domestic consolidated subsidiaries depreciate the differences between five percent of the acquisition amount and memorandum value of tangible fixed assets acquired on or before 31st March, 2007 using the straight-line method over five years, starting the consolidated fiscal year following the consolidated fiscal year in which the remaining value reached five percent of its acquisition value, based on the depreciation method stipulated in the Corporation Tax Law before its revision, and we record it in depreciation expenses. Its effect on earnings is insignificant.

Change of presentation method

(Consolidated balance sheet)

The negotiable certificates of deposits issued by domestic corporations which had been included in “Cash and cash in banks” in the previous fiscal year are presented as “marketable securities” beginning this consolidated fiscal year, as Revision of Accounting Practice Committee Statement No. 14 Entitled “Practical Guidelines on Accounting Standards for Financial Instruments” (4th July 2007) stipulates they are to be treated as marketable securities. The balance of negotiable certificates of deposits issued by the domestic corporations was 8,000 million yen in the previous consolidated fiscal year and 15,000 million yen this consolidated fiscal year.

Notes to Consolidated Balance Sheet

(Yen in millions)

1. Assets pledged as collateral

(1) Assets pledged as collateral	
Notes receivable and accounts receivable-trade	¥428
Inventories	¥1,153
Buildings and other structures	¥3,789
Machinery, equipment and vehicles	¥9,561
Land	¥ 245
<u>Forest</u>	<u>¥1,556</u>
Total	¥16,732

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

In addition to the above, certificates of deposit of 15 million yen are deposited as security on closing tree-planting business agreements, etc.

(2) Liabilities secured by collateral	
Short-term borrowings	¥2,433
<u>Long-term loans payable</u>	<u>¥669</u>
Total	¥3,101

2. Accumulated depreciation of property, plant and equipment ¥66,259

3. Amount guaranteed by the Group, etc.

(1) Contingent liabilities

1) Guarantee on loans from financial institutions	
PT.AST INDONESIA	¥200
Purchasers with housing loans applied	¥19,961
Others	¥0
Total	¥20,161
2) Guarantee on rent payment	
Sumikyo Co. Ltd.	¥211
(2) Notes receivable discounted	¥277

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	237,846

3. Items related to dividend

(1) Dividend payment

Resolution	Type of stock	Total amount of dividend (Yen in millions)	Dividend per share (Yen)	Base date	Effective date
Ordinary General Meeting of Shareholders on 22nd June 2007	Common stock	1,507	8.50	31st March 2007	25th June 2007
Board of Directors' Meeting on 6th November 2007	Common stock	1,329	7.50	30th September 2007	7th December 2007

- (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 20th June 2008	Common stock	1,329	Retained earnings	7.50	31st March 2008	23th June 2008

Notes to per-share information

Equity per share	¥975.99
Net income per share	¥6.29

NON-CONSOLIDATED BALANCE SHEET

31st March 2008

(Yen in millions)

<u>Assets</u>			
I	Current assets:		
(1)	Cash and cash in banks	¥	29,976
(2)	Notes receivable		45,451
(3)	Accounts receivable-trade		56,804
(4)	Accounts receivable-housing construction		802
(5)	Marketable securities		15,000
(6)	Inventories		10,600
(7)	Real estate for sale		15,084
(8)	Work in process		22,083
(9)	Advance payments		619
(10)	Prepaid expenses		858
(11)	Deferred tax assets		3,558
(12)	Short-term loans		0
(13)	Short-term loans to affiliated companies		12,275
(14)	Other receivables		63,786
(15)	Other assets		46
(16)	Allowance for doubtful accounts		<u>(1,520)</u>
			<u>275,423</u>
II	Fixed assets:		
	Property, plant and equipment:		
(1)	Buildings		6,285
(2)	Other structures		463
(3)	Machinery and equipment		212
(4)	Vehicles		17
(5)	Tools, furniture and fixtures		1,397
(6)	Land		7,040
(7)	Forest		8,430
(8)	Forestation projects		282
(9)	Construction in progress		<u>1,405</u>
			<u>25,531</u>
	Intangibles assets:		
(1)	Goodwill		85
(2)	Telephone right		173
(3)	Land lease right		4
(4)	Utilization right of forest road		246
(5)	Facility utilization and other rights		5
(6)	Computer software		<u>4,181</u>
			<u>4,695</u>
	Investments and other assets:		
(1)	Investment securities		44,808
(2)	Stocks of affiliated companies		16,424
(3)	Investment in affiliated companies		197
(4)	Long-term loans		131
(5)	Long-term loans to employees		40
(6)	Long-term loans to affiliated companies		14,391
(7)	Receivables and reorganization claim		1,157
(8)	Long-term prepaid expenses		1,141
(9)	Other investments/assets		4,505
(10)	Allowance for doubtful accounts		<u>(2,594)</u>
			<u>80,199</u>
			<u>110,424</u>
Total assets		¥	<u>385,847</u>

NON-CONSOLIDATED BALANCE SHEET

31st March 2008

(Yen in millions)

<u>Liabilities</u>		
I	Current liabilities:	
(1)	Notes payable	¥ 7,405
(2)	Accounts payable-trade	60,640
(3)	Accounts payable-housing construction	79,984
(4)	Other payables	4,498
(5)	Income taxes payable	1,667
(6)	Accrued consumption taxes	74
(7)	Accrued expenses	583
(8)	Advances from customers	831
(9)	Advances received for construction	33,977
(10)	Deposits received	15,380
(11)	Unearned income	1,105
(12)	Allowance for bonuses	4,600
(13)	Allowance for bonuses to directors	35
(14)	Warranty reserve for completed construction	1,054
(15)	Other current liabilities	<u>158</u>
		<u>211,989</u>
II	Long-term liabilities:	
(1)	Long-term borrowings	2,000
(2)	Deposits received for guarantees	4,494
(3)	Deferred tax liabilities	4,441
(4)	Allowance for retirement benefits	9,908
(5)	Allowance for losses of affiliated company operations	3,298
(6)	Allowance for losses on restructuring	888
(7)	Other long-term liabilities	<u>278</u>
		<u>25,306</u>
	Total liabilities	<u>237,295</u>
<u>Equity</u>		
I	Shareholders' equity:	
	Common stock	27,672
	Capital surplus:	
(1)	Capital legal surplus	26,613
(2)	Other capital surplus	<u>263</u>
		<u>26,876</u>
	Retained earnings:	
(1)	Legal retained earnings	2,857
(2)	Other retained earnings	
1)	Reserve for deferred income taxes	1,347
2)	General reserve	78,787
3)	Retained earnings carried forward	<u>2,096</u>
		<u>82,230</u>
		<u>85,087</u>
	Treasury stock	<u>(249)</u>
		<u>139,386</u>
II	Valuation and translation adjustments	
(1)	Other securities valuation difference	9,244
(2)	Deferred gains or losses on hedges	<u>(78)</u>
		<u>9,166</u>
	Total equity	<u>148,552</u>
	Total liabilities and equity	¥ <u>385,847</u>

NON-CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended 31st March 2008

(Yen in millions)

I Net sales:		
1. Sales	¥	405,124
2. Sales of completed constructions		<u>307,190</u>
		<u>712,313</u>
II Cost of sales:		
1. Cost of sales		390,864
2. Cost of completed construction		<u>232,163</u>
		<u>623,027</u>
Gross profit		<u>89,287</u>
III Selling, general and administrative expenses		<u>87,680</u>
Operating income		<u>1,607</u>
IV Non-operating income:		
1. Interest income		481
2. Interest on marketable securities		13
3. Purchase discount		790
4. Dividend income		2,018
5. Other income		<u>782</u>
		<u>4,085</u>
V Non-operating expenses:		
1. Interest expense		168
2. Sales discount		589
3. Appraisal losses on property for sale, etc.		49
4. Other expenses		<u>455</u>
		<u>1,261</u>
Ordinary profit		<u>4,431</u>
VI Extraordinary gain:		
1. Gains on sales of investment securities		<u>2,282</u>
		<u>2,282</u>
VII Extraordinary loss:		
1. Losses on retirement of fixed assets		84
2. Appraisal losses on investment securities		3,790
3. Appraisal losses on stocks of affiliates		<u>70</u>
		<u>3,944</u>
Income before income taxes		<u>2,770</u>
Income taxes	- Current	2,240
	- Deferred	<u>(95)</u>
Net income	¥	<u>624</u>

NON-CONSOLIDATED STATEMENT OF CHANGES IN EY

Year ended 31st March 2008

(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		Reserve for advanced depreciation	General reserve	Retained earnings carried forward					
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
Changes of items during the period												
Provision of general reserve						6,500	(6,500)		-			-
Reversal of reserve for advanced depreciation					(74)		74		-			-
Dividends from retained earnings							(2,835)		(2,835)			(2,835)
Net income							624		624			624
Purchase of treasury stock								(95)	(95)			(95)
Disposal of treasury stock			(6)					30	24			24
Net changes of items other than shareholders' equity										(13,066)	(112)	(13,178)
Total changes of items during the period	-	-	(6)	-	(74)	6,500	(8,637)	(65)	(2,282)	(13,066)	(112)	(15,460)
Balance as of 31st March 2008	27,672	26,613	263	2,857	1,347	78,787	2,096	(249)	139,386	9,244	(78)	148,552

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 and currency swap transaction.

(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 and currency swap transaction 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

(Depreciation method for Property, plant and equipment)

In accordance with the revision of the Corporation Tax Law, the Company has changed the depreciation method for Property, plant and equipment acquired on and after 1st April, 2007 pursuant to the revised Corporation Tax Law beginning this fiscal year.

Its impact on earnings is insignificant.

(Additional information)

In accordance with the revision of the Corporation Tax Law, the Company depreciate the differences between 5% of acquisition amount and memorandum value of Property, plant and equipment acquired on and before 31st March 2007 using the straight-line method over five years starting the fiscal year following the fiscal year in which the remaining value reached 5% of its acquisition value based on the depreciation method based on the Corporation Tax Law before the revision and record it in depreciation expenses.

Its impact on earnings is insignificant.

Change of presentation method

(Balance sheet)

The negotiable certificates of deposits issued by domestic corporations which had been included in “Cash and cash in banks” in the previous fiscal year are presented as “marketable securities” beginning this fiscal year as they are stipulated to be treated as marketable securities by Revision of Accounting Practice Committee Statement No. 14 Entitled “Practical Guidelines on Accounting Standards for Financial Instruments” (4th July 2007). The balance of negotiable certificates of deposits issued by the domestic corporations was 8,000 million yen in the previous fiscal year and 15,000 million yen this fiscal year.

Notes to Non-consolidated Balance Sheet

(Yen in millions)

1. Accumulated depreciation on property, plant and equipment	¥11,065
2. Accumulated advanced depreciation on property, plant and equipment	¥694
3. Amount guaranteed by the Company	

(1) Guarantee on loans, etc. of affiliated companies from financial institutions

PT.Kutai Timber Indonesia.	¥5,539
Sumitomo Forestry Seattle, Inc	¥4,899
SUMITOMO FORESTRY (SINGAPORE) LTD.	¥4,194
ALPINE MDF INDUSTRIES PTY LTD	¥2,430
Sumikyo Co.Ltd.	¥211
PT.AST INDONESIA	¥200
Toyo Plywood Co., Ltd.	¥165
PARAGON WOOD PRODUCT (DALIAN) CO., LTD.	¥78
PARAGON WOOD PRODUCT (SHANGHAI)CO.,LTD.	¥77
<u>Sumikyo Wintec Co., Ltd.</u>	<u>¥18</u>
Total	¥17,812

(2) Guarantee on other loans, etc. from financial institutions

Purchasers with housing loans applied	¥19,054
Others	¥0
Total	¥ 19,054

4. Short-term monetary receivables due from affiliated companies	¥41,013
Long-term monetary receivables due from affiliated companies	¥14,391
Short-term monetary payables due to affiliated companies	¥40,780

Notes to Non-consolidated Profit and Loss Statement

(Yen in millions)

1. Operating transactions with affiliated companies	
Sales	¥31,320
Purchases	¥113,844
Non-operating income	
Interest income	¥407
Dividend income	¥1,219
Other income	¥154
Non-operating expense	¥107

Notes to Non-consolidated Statements of Changes in Equity

Total outstanding treasury stock as of the end date of the current fiscal year	
Common stock	237,846

Notes related to tax effect accounting

(Yen in millions)

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

Deferred tax assets	
Allowance for doubtful accounts	¥1,414
Reserve for bonuses	¥2,068
Appraisal losses on property for sale, etc.	¥2,249
Allowance for retirement benefits	¥3,963
Allowance for losses of affiliated company operations	¥1,319
Appraisal losses on stocks of affiliates	¥2,564
Appraisal losses on investment securities and golf club membership	¥2,822
Others	¥2,717
Subtotal deferred tax assets	¥19,116
Valuation reserve	¥ (11,024)
Total deferred tax assets	¥8,093
Deferred tax liabilities	
Accumulated advanced depreciation on fixed assets	¥897
Gain on contribution of securities to retirement benefit trust	¥1,590
Other securities valuation difference	¥4,877
Others	¥1,610
Total deferred tax liabilities	¥8,975
Net deferred tax liabilities	¥882

Notes to fixed assets used under lease

(Yen in millions)

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

	Amount equivalent to acquisition value	Amount equivalent to accumulated depreciation	Amount equivalent to balance as of the end of fiscal year
Buildings	11,681	5,834	5,847
Machinery and equipment	57	45	12
Vehicles	832	371	461
Equipment	2,049	967	1,082
Computer software	1	1	0
Total	14,620	7,219	7,402

2. Amount equivalent to the year-end balance of obligations to be paid in the rest of the lease terms

Less than one year	¥3,242
Over one year	¥4,272
Total	¥7,514

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

Lease expenses	¥3,967
Amount equivalent to depreciation	¥3,696
Amount equivalent to interest expenses	¥157

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

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%	12 interlocking directors	Paid supply of materials and construction of ordered housing	Construction of housing ordered by the Company	68,489	Accounts receivable Accounts payable on construction	20,586 21,017
Subsidiary	Sumitomo Forestry Home Tech Co. Ltd.	Chiyoda-ku, Tokyo	100	Housing and related operations	Direct 100.0%	6 interlocking directors	-	Deposit of surplus fund to the Company	-	Deposits received	6,891

(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.

Notes to per-share information

Equity per share	¥838.46
Net income per share	¥3.52