Financial Section

Ten-Year Summary

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

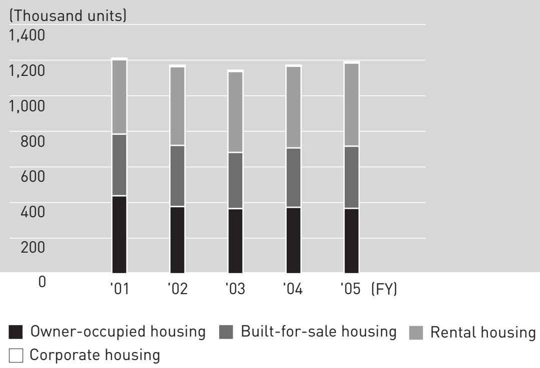
	Millions of yen (Unless otherwise specified)		
	2005	2004	2003
Operating Results:			
Net sales and contract revenues	**¥ 723,193**	¥ 673,779	¥ 645,100
Timber and building materials*1	**320,255**	293,220	283,517
Housing and Housing-Related Businesses*1	**418,313**	393,616	370,421
Other Businesses	**13,185**	12,350	17,882
Elimination and/or corporate	**(28,560)**	(25,408)	(26,721)
Gross profit	**125,582**	120,778	109,631
Selling, general and administrative expenses	**107,116**	103,201	100,858
Operating income	**18,466**	17,577	8,772
Timber and building materials*1	**4,615**	3,813	2,238
Housing and Housing-Related Businesses*1	**17,530**	17,150	9,920
Other Businesses	**738**	644	415
Elimination and/or corporate	**(4,418)**	(4,030)	(3,802)
Recurring income*2	**18,692**	17,074	9,721
Net income (loss)	**8,014**	9,870	(15,439)
Financial Position:			
Total assets	**¥ 370,684**	¥ 369,755	¥ 357,322
Working capital*3	**67,579**	66,377	60,260
Interest-bearing debt	**15,580**	19,929	16,497
Total shareholders' equity	**152,500**	146,269	129,727
Cash Flows:			
Cash flows from operating activities	**¥ 6,685**	¥ 25,962	¥ 19,734
Cash flows from investment activities	**(12,895)**	(7,646)	2,026
Cash flows from financing activities	**(7,087)**	(735)	(8,171)
Cash and cash equivalents at the end of the year	**55,928**	69,312	52,029
Capital Investment:*4			
Tangible fixed assets	**¥ 7,016**	¥ 4,040	¥ 2,761
Software	**1,673**	1,468	2,077
Others	**549**	883	283
Total	**9,237**	6,392	5,123
Depreciation and amortization	**6,452**	6,447	5,985
Per Share Data:	Yen		
Net income (loss)	**¥ 45.3**	¥ 55.8	¥ (87.5)
Shareholders' equity	**866.5**	830.5	736.4
Cash dividends	**13.00**	13.00	10.00
Financial Ratios:	%		
Gross income margin	**17.4**	17.9	17.0
Operating income margin	**2.6**	2.6	1.4
Recurring income margin	**2.6**	2.5	1.5
Return on asset (ROA)*5	**5.0**	4.7	2.7
Return on equity (ROE)*5	**5.4**	7.2	(11.1)
Shareholders' equity ratio	**41.1**	39.6	36.3
Interest-bearing ratio*6	**9.3**	12.0	11.3
Current ratio	**137.4**	135.7	132.6
Interest coverage ratio [times]	**18.6**	21.9	18.3

Notes: 1. Starting in fiscal 2001, the profits from transactions in housing materials have been included in the Housing and Housing-Related segment; they were previously included in the Timber and Building Materials segment.
2. Recurring income = Operating income + Non-operating income – Non-operating expenses
Non-operating income includes interest income, purchase discounts, dividends income, exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, loss on devaluation of property, plant and equipment, exchange losses, miscellaneous expenses, and other expenses from normal business activities.
3. Working capital = Current assets – Current liabilities
4. Disclosure of capital investment was not institutionalized prior to fiscal 2000, thus data for the first five years from fiscal 1995 are partly lacking.
5. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
ROA = Recurring income / Total assets
ROE = Net income (loss) / Shareholders' equity
6. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

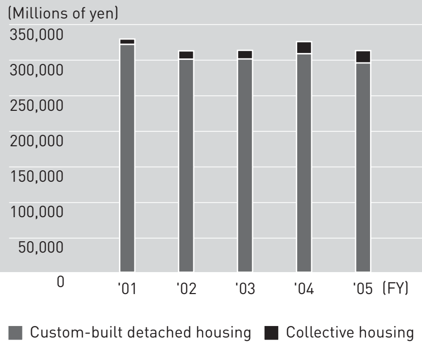
Millions of yen (Unless otherwise specified)						
2002	2001	2000	1999	1998	1997	1996
¥ 644,730	¥ 682,375	¥ 699,594	¥ 620,615	¥ 713,728	¥ 817,949	¥ 698,461
270,856	279,811	340,988	294,411	333,941	402,795	330,459
381,978	405,150	370,692	335,782	380,781	412,124	361,966
18,050	16,978	15,481	13,900	10,818	17,072	17,501
(26,154)	(19,565)	(27,568)	(23,480)	(11,812)	(14,043)	(11,465)
109,437	118,064	112,269	99,692	107,877	124,586	116,745
106,397	102,065	98,720	93,481	102,072	100,949	97,004
3,040	15,999	13,549	6,210	5,805	23,637	19,740
1,882	5,128	14,770	11,341	6,870	15,380	11,823
4,961	16,631	5,141	942	1,832	13,155	11,351
579	519	569	1,315	985	1,425	1,721
(4,384)	(6,279)	(6,933)	(7,388)	(3,882)	(6,324)	(5,155)
3,731	16,908	12,541	6,305	6,694	25,500	20,728
465	6,994	5,708	134	2,145	13,158	10,886
¥ 365,531	¥ 371,102	¥ 360,935	¥ 346,293	¥ 341,325	¥ 430,217	¥ 397,202
60,477	61,319	68,892	71,746	62,992	56,099	41,614
18,124	24,517	35,720	40,059	47,188	54,076	50,891
147,440	150,979	144,914	139,301	140,357	139,353	128,103
¥ 17,332	¥ 3,468	¥ (3,281)	¥ 26,715	¥ 9,561	¥ 20,946	¥ 10,889
(16,439)	(1,960)	(3,330)	2,068	(6,200)	2,952	(7,035)
(9,716)	(13,873)	(5,351)	(8,257)	(9,100)	1,597	2,508
38,873	47,476	59,916	71,971	51,302	57,090	31,594
¥ 7,705	¥ 4,448	¥ 4,373	¥ —	¥ —	¥ —	¥ —
2,194	1,889	1,264	—	—	—	—
225	252	303	—	—	—	—
10,124	6,590	5,941	4,556	13,172	11,448	10,171
5,289	4,551	4,756	5,060	5,057	4,944	4,842
Yen						
¥ 2.6	¥ 39.6	¥ 32.4	¥ 0.8	¥ 12.2	¥ 74.6	¥ 61.7
835.1	854.9	821.6	789.8	795.8	790.1	726.3
10.00	10.00	10.00	10.00	10.00	12.00	9.00
%						
17.0	17.3	16.0	16.1	15.1	15.2	16.7
0.5	2.3	1.9	1.0	0.8	2.9	2.8
0.6	2.5	1.8	1.0	0.9	3.1	3.0
1.0	4.6	3.5	1.8	1.7	6.2	5.4
0.3	4.7	4.0	0.1	1.5	9.8	8.9
40.3	40.7	40.1	40.2	41.1	32.4	32.3
10.9	14.0	19.8	22.3	25.2	28.0	28.4
131.8	131.1	137.7	141.6	137.4	121.0	117.0
7.8	22.6	18.6	5.8	4.3	17.5	8.9

Management's Discussion & Analysis

Number of New Housing Starts in Japan



Amount of Orders Received



Market Overview

The economy was favorable in the first half of fiscal 2005, ended March 31, 2005, driven by strong exports resulting from Asian economic expansion and robust capital expenditures due to an expansion of replacement demand on the production lines. The second half, however, saw the economy enter a period of short-term adjustment as exports slowed due to a strong yen, soaring crude oil prices, and inventory adjustments in the IT sector.

In the housing sector, the number of new housing starts rose 1.7% over the previous fiscal year to 1.193 million units, attributable to a recovery in consumption and employment as well as a surge in home purchases that accompanied the phasing-out of housing loan-related tax breaks. Leading the growth was the favorable performance of built-for-sale housing, although the number of owner-occupied housing starts decreased 1.6% to 367,000 units.

The timber and building materials industry experienced strong growth in the first half due to a housing market rally. Yet, disruption in the supply-and-demand balance in the second half caused a slump centered on timber-related products.

Consolidated Operating Results

1. Orders Received, Net Sales and Contract Revenues

Sales for all three business segments increased, causing consolidated net sales and contract revenues to rise by 7.3% year on year to ¥723.193 billion. Orders for custom-built detached houses declined 4.2% on a value basis to ¥295.757 billion, and decreased by 4.3% in unit terms to 10,076 units. This was due to a difficult environment for the industry as a whole as well as the fact that the Sumitomo Forestry Group withdrew from the wooden component housing business. The non-consolidated unit balance of orders at year-end was almost the same as the level for the previous fiscal year.

2. Selling, General, and Administrative (SG&A) Expenses

Selling, general, and administrative expenses rose 3.8% over the previous fiscal year to ¥107.116 billion, a minimal change compared with the increase in revenues. Approximately ¥1.8 billion of the ¥3.915 billion increase was due to the introduction of a corporate tax assessment based on business size as well as increased advertising expenses for the parent company. For other companies in the Group, primary factors for the increase were: (1) the aggressive expansion of business bases and personnel employed by Sumitomo Forestry Home Tech. Co., Ltd., which specializes in home remodeling, and by Sumitomo Forestry Home Service Co., Ltd, which engages in real estate distribution; and (2) the extraordinary factor of a 15-month irregular period for fiscal 2005 at Sun Step Co., Ltd, which undertakes lease management.

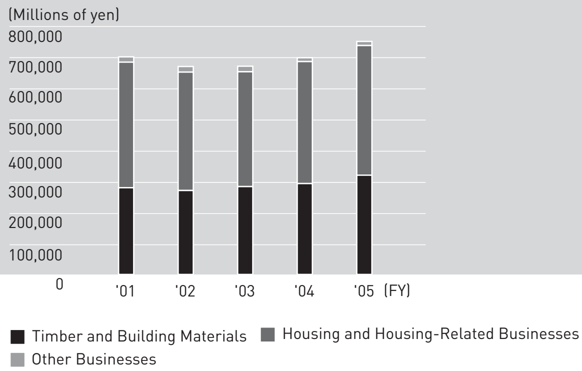
3. Operating Income

As a result, operating income rose 5.1% year on year to ¥18.466 billion. Income growth was recorded for all segments: Timber and Building Materials, Housing and Housing-Related Businesses, and Other Businesses.

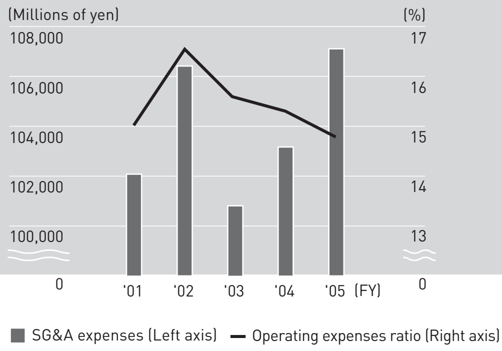
4. Non-Operating Income and Expenses and Recurring Income

Total non-operating income and expenses staged a rebound from a loss of ¥503 million in the previous fiscal year, recording a profit of ¥226 million due to increases in equity in earnings for our Indonesian building materials manufacturers, PT. Rimba Partikel Indonesia (PTI) and PT. AST Indonesia, which are accounted for under the equity method, as well as a

Net Sales and Contract Revenues



SG&A Expenses and Operating Expenses Ratio



Note: Operating expenses ratio
= SG&A expenses / Net sales and contract revenues

decrease in losses on devaluation for real estate for sale. As a result, recurring income rose 9.5% year on year to ¥18.692 billion.

5. Special Gains and Losses

Net special gains and losses deteriorated by ¥11.015 billion over the previous fiscal year, bringing the current period loss to ¥3.026 billion. The primary reasons for this were a ¥3.284 billion loss on the liquidation of the wooden component housing business and the absence of a special gain booked for a decrease in obligations incurred for prior service, which was booked last fiscal year due to a revision of the retirement benefits accounting system. The absence of this gain for fiscal 2005 resulted in a large income decrease. Other significant factors aside from these losses were an ¥806 million special gain booked on the sale of investment securities, and a special loss of ¥509 million for moving expenses for the Sumitomo Forestry head office.

6. Net Income

Despite the rise in recurring income, net income for the year decreased 18.8% year on year to ¥8.014 billion, due primarily to the above noted deterioration in special net gains and losses. Net income per share decreased ¥10.53 to ¥45.28. Moreover, return on equity (ROE) decreased 1.8 percentage points to 5.4%.

Segment Information

1. Timber and Building Materials

Consolidated net sales for Timber and Building Materials rose 9.2% year on year to ¥320.255 billion (with ¥301.696 billion external sales) and operating income rose 21.0% to ¥4.615 billion. Factors leading to this expansion in consolidated net sales were: (1) 8.0% year-on-year growth in non-consolidated net sales to ¥20.575 billion due to strong sales of Russian logs in the timber segment, and imported plywood in the building materials segment; and (2) double-digit growth in net sales for all overseas consolidated manufacturing subsidiaries due to a recovery of the MDF and plywood markets. Operating income growth surpassed sales growth by a large margin, as overseas consolidated subsidiaries improved their profitability as a result of the market recovery as well as their efforts to strategically select sales territories and streamline production to achieve cost reductions.

2. Housing and Housing-Related Businesses

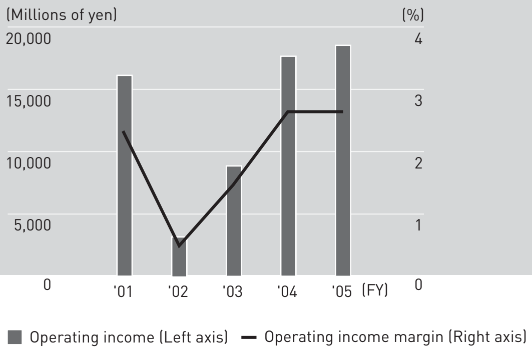
Consolidated sales for Housing and Housing-Related Businesses rose 6.3% year on year to ¥418.313 billion (with ¥418.031 billion external sales). Accordingly, operating income rose 2.2% to ¥17.530 billion. Factors underlying the increase in net sales were: (1) a ¥6.928 billion increase in the segment sales for the parent company; (2) an expansion in the scale of business at

Business Results by Segment

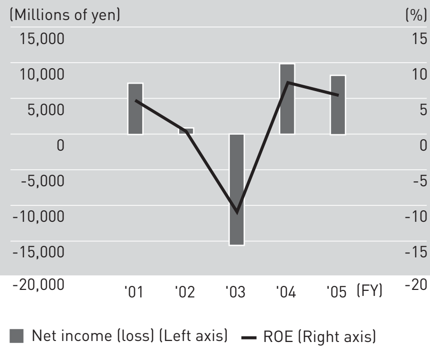
	Timber and Building Materials		Housing and Housing-Related Businesses		Other Businesses	
(Millions of yen)	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Net sales	320,255	293,220	418,313	393,616	13,185	12,350
Operating income	4,615	3,813	17,530	17,150	738	644
Operating income margin	1.4%	1.3%	4.2%	4.4%	5.6%	5.2%

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

Operating Income and Operating Income Margin



Net Income (Loss) and ROE



Note: ROE = Net income (loss) / Shareholders' equity

Sumitomo Forestry Home Tech. Co., Ltd. and Sumitomo Forestry Home Service Co., Ltd.; and (3) an irregular 15-month period for fiscal 2005 at Sun Step Co., Ltd. On the other hand, the operating income margin for this segment deteriorated compared to the previous fiscal year. This deterioration was mainly associated with stagnant sales for Sumitomo Forestry Two-by-Four Homes Co., Ltd. and increased SG&A expenses for the parent company due to rising advertising and promotional expenses for order promotions, expenses incurred for recovery from damage due to natural disasters such as typhoons and earthquakes, and increases in material expenses.

3. Other Businesses

Consolidated net sales for Other Businesses rose 6.8% year on year to ¥13.185 billion (with ¥3.466 billion external sales), while operating income rose 14.6% to ¥738 million, compared with the previous fiscal year.

Financial Position and Cash Flows

1. Financial Position

Total assets at the end of fiscal 2005 increased ¥930 million over the previous fiscal year to ¥370.684 billion. Current assets decreased by ¥4.262 billion to ¥248.066 billion, while fixed assets increased by ¥5.192 billion to ¥122.618 billion.

For current assets, real estate for sale increased by ¥4.780 billion due to the purchase of land for built-for-sale housing by the parent company in addition to an increase in accounts receivable that accompanied an increase in net sales for Timber and Building Materials. In contrast, there was a large decrease in marketable securities as well as cash and time deposits due to the repayment of debt, which resulted in a decrease in surplus capital. The primary reasons for the increase in fixed assets were an increase in investment securities due to the purchase of shares in Dongwha Enterprise Co., Ltd., a South Korean building materials manufacturer, an increase in buildings due to the purchase of condominiums for lease by Sun Step Co., Ltd., and an increase in fixed assets due to the relocation of the parent company's head office.

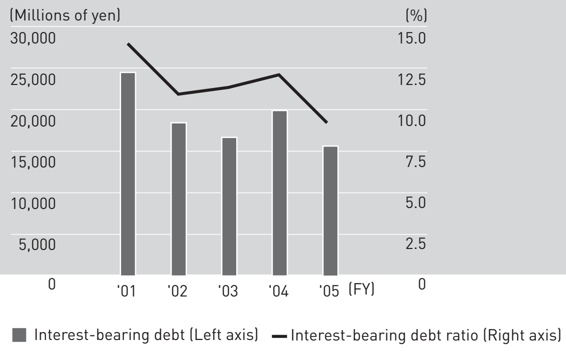
Total liabilities decreased by ¥5.437 billion to ¥217.663 billion. Current liabilities decreased by ¥5.464 billion to ¥180.487 billion, and long-term liabilities increased by ¥27 million to ¥37.176 billion. Debt decreased by a total of ¥4.289 billion, due to the payment in full of ¥3.6 billion of short-term debt on a non-consolidated basis as we established a commitment line of ¥10.0 billion, as well as the partial repayment of long-term debt mainly in overseas subsidiaries which achieved turnarounds. As a result, the balance of interest-bearing debt decreased by ¥4.349 billion year on year to ¥15.580 billion.

Total shareholders' equity increased by ¥6.231 billion to ¥152.5 billion, due to a ¥431 million increase in foreign currency translation adjustments, in addition to an increase in profits.

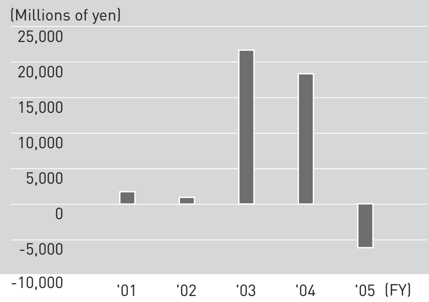
2. Cash Flows

Net cash provided by operating activities decreased by ¥19.277 billion year on year to ¥6.685 billion. The net decrease is mainly attributable to an increase in accounts receivable, which accompanied an expansion in imported products for the Timber and Building Materials segment, the acquisition of real estate for sale in the Housing and Housing-Related Businesses segment, and

Interest-Bearing Debt
and Interest-Bearing Debt Ratio



Free Cash Flows



an increase in the amount of corporate tax paid.

Net cash used in investment activities amounted to ¥12.895 billion. This was due mainly to the replacement of production equipment for subsidiaries engaged in the manufacture of building materials, the acquisition of tangible fixed assets including the purchase of short-term-lease condominiums and land, and an investment in a South Korean building materials manufacturer. Net cash used in financing activities increased by ¥6.352 billion to ¥7.087 billion. This was due to the repayment of short and long-term debt and payment of dividends. The balance of cash and cash equivalents at the end of the year totaled ¥55.928 billion, a decrease of ¥13.384 billion compared with the previous fiscal year.

Business Risk and Risk Management

The business results of the Sumitomo Forestry Group are subject to fluctuations in interest rates, land prices, and exchange rates and can be influenced by changes in the tax system and legal regulations in addition to market trends for housing, timber, and building materials. The Group continually works to minimize these risks by (1) making ongoing improvements to product competitiveness; (2) cost reductions; (3) diversification of operating regions and businesses fields; and (4) the use of forward exchange contracts. It must be recognized, however, that we cannot completely avert these risks.

1. Fluctuations in Interest Rates, Land Prices, and Exchange Rates

Interest rate increases, particularly with respect to long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build collective housing for the effective use of their land. A forecasted rise in interest rates can result in a surge in home purchases ahead of the rate hike as consumers seek to avoid higher loan costs. This, however, may be followed by a backlash after the rush has ended. Rising land prices can have a negative effect on consumer appetite to purchase land; conversely, falling land prices can cause a decline in demand for home reconstruction as a result of asset deflation.

Exchange rate fluctuations can affect business results when production costs are temporarily influenced by them or when the currency of a country in which we manufacture products appreciates in relation to the currency of a country to which we export the products.

2. Changes in Tax Systems and Legal Regulations

Laws and regulations surrounding the housing business include the newly introduced Personal Information Protection Act, in addition to the Building Standards Law, Construction Industry Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (laws concerning the procedures for waste disposal and site clean-up). These laws and regulations can substantially influence product content and construction methods. There is the possibility that the business results of the Sumitomo Forestry Group might be substantially affected in the event of the abolition, revision, and enactment of laws and regulations. Moreover, changes in mortgage tax breaks and consumption tax rates have a significant effect on fluctuations in orders for the Sumitomo Forestry Group.

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash and time deposits (Note 11)	**¥ 25,188**	¥ 30,169	**$ 235,406**
Marketable securities (Note 5)	**31,045**	39,356	**290,141**
Receivables—			
Notes and accounts, trade	**90,321**	81,714	**844,122**
Loans and other	**46,638**	52,128	**435,867**
Inventories—			
Finished goods, logs and lumber	**19,757**	16,841	**184,647**
Developed land and housing for sale	**10,775**	5,995	**100,700**
Land and housing projects in progress	**14,171**	16,215	**132,438**
Deferred income taxes (Note 8)	**8,513**	8,323	**79,565**
Other current assets	**2,349**	2,415	**21,955**
Allowance for doubtful accounts	**(692)**	(829)	**(6,469)**
Total current assets	**248,066**	252,328	**2,318,372**
Property, plant and equipment, at cost less accumulated depreciation (Note 7)**:**			
Land	**17,542**	16,965	**163,945**
Buildings and structures	**29,735**	28,839	**277,900**
Machinery and equipment	**51,208**	49,847	**478,575**
Timber (Note 6)	**11,094**	11,083	**103,682**
Construction in progress	**2,206**	1,944	**20,621**
	111,785	108,677	**1,044,723**
Less accumulated depreciation	**(46,679)**	(45,542)	**(436,256)**
Net property, plant and equipment	**65,106**	63,135	**608,467**
Intangible assets, net of amortization:			
Consolidation goodwill	**1,434**	1,883	**13,399**
Other intangible assets	**5,454**	5,533	**50,970**
Total intangible assets	**6,887**	7,416	**64,369**
Investments and other assets:			
Investment securities (Note 5)	**40,485**	36,412	**378,365**
Long-term loans and receivables	**1,881**	2,347	**17,576**
Deferred income taxes (Note 8)	**1,193**	1,230	**11,146**
Other assets	**8,627**	8,605	**80,629**
Allowance for doubtful accounts	**(1,561)**	(1,718)	**(14,586)**
Total investments and other assets	**50,625**	46,875	**473,130**
	¥ 370,684	¥ 369,755	**$ 3,464,338**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	**2005**
Current liabilities:			
Payables—			
Notes and accounts, trade	**¥ 110,653**	¥ 108,987	**$ 1,034,140**
Other	**5,289**	6,233	**49,428**
Short-term debt (Note 7)	**6,395**	8,621	**59,765**
Current portion of long-term debt (Note 7)	**956**	1,007	**8,933**
Advances received from customers	**35,285**	37,739	**329,763**
Accrued income taxes	**4,197**	7,056	**39,228**
Accrued employees' bonuses	**7,518**	7,072	**70,262**
Other current liabilities	**10,194**	9,235	**95,275**
Total current liabilities	**180,487**	185,951	**1,686,794**
Long-term liabilities:			
Long-term debt (Note 7)	**8,229**	10,300	**76,909**
Deferred income taxes (Note 8)	**2,259**	2,041	**21,117**
Accrued employees' retirement benefits (Note 16)	**13,915**	11,417	**130,048**
Other	**12,772**	13,391	**119,365**
Total long-term liabilities	**37,176**	37,149	**347,439**
Minority interests in consolidated subsidiaries	**521**	385	**4,871**
Contingent liabilities (Note 14)			
Shareholders' equity (Note 12)**:**			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 176,603,881 shares	**27,672**	27,672	**258,617**
Capital surplus	**25,654**	25,651	**239,752**
Retained earnings	**90,807**	85,148	**848,668**
Unrealized gain on available-for-sale securities	**9,243**	8,972	**86,381**
Foreign currency translation adjustments	**(380)**	(811)	**(3,553)**
Treasury stock (653,288 shares in 2005 and 530,083 shares in 2004)	**(496)**	(363)	**(4,631)**
Total shareholders' equity	**152,500**	146,269	**1,425,234**
	¥ 370,684	¥ 369,755	**$ 3,464,338**

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	**2005**
Sales:			
Net sales	**¥ 356,686**	¥ 314,562	**$ 3,333,515**
Contract revenues	**366,507**	359,217	**3,425,302**
Total	**723,193**	673,779	**6,758,817**
Cost of sales:			
Cost of sales	**329,631**	292,558	**3,080,668**
Cost of contracts completed	**267,980**	260,443	**2,504,483**
Total	**597,611**	553,001	**5,585,151**
Gross profit	**125,582**	120,778	**1,173,666**
Selling, general and administrative expenses (Note 10)	**107,116**	103,201	**1,001,087**
Operating income	**18,466**	17,577	**172,579**
Other income (expenses):			
Interest and dividends income	**437**	372	**4,080**
Interest expense	**(752)**	(590)	**(7,027)**
Loss on devaluation of investment securities	**(5)**	(14)	**(42)**
Loss on devaluation of real estate for sale and other assets	**(47)**	(589)	**(435)**
Impairment loss	**(36)**	(5,532)	**(332)**
Moving expense of the head office	**(509)**	—	**(4,760)**
Loss on business restructuring	**(3,284)**	—	**(30,691)**
Amortization of prior service costs	**—**	9,441	**—**
Amortization of unrecognized actuarial gains	**—**	4,280	**—**
Other gains, net (Note 9)	**1,396**	119	**13,043**
Total	**(2,800)**	7,486	**(26,164)**
Income before income taxes and minority interests	**15,666**	25,063	**146,415**
Income taxes (Note 8):			
Current	**7,688**	9,373	**71,854**
Deferred	**(161)**	5,788	**(1,502)**
Total	**7,528**	15,161	**70,352**
Minority interests	**124**	32	**1,163**
Net Income	**¥ 8,014**	¥ 9,870	**$ 74,900**
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net Income (Note 18)	**¥ 45.28**	¥ 55.81	**$ 0.42**
Cash dividends	**13.00**	13.00	**0.12**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen						
	Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock at Cost
Balance as at March 31, 2003	176,603,881	¥ 27,672	¥ 25,651	¥ 77,304	¥ 1,647	¥ (2,256)	¥ (290)
Net income	—	—	—	9,870	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	7,325	—	—
Changes in foreign currency translation	—	—	—	—	—	1,445	—
Cash dividends (¥11.50 per share)	—	—	—	(2,026)	—	—	—
Gain on sale of treasury stock	—	—	0	—	—	—	—
Treasury stock acquired, net (87,242 shares)	—	—	—	—	—	—	(73)
Balance as at March 31, 2004	176,603,881	¥ 27,672	¥ 25,651	¥ 85,148	¥ 8,972	¥ (811)	¥ (363)
Net income	**—**	**—**	**—**	**8,014**	**—**	**—**	**—**
Changes in unrealized gain on available-for-sale securities, less applicable taxes	**—**	**—**	**—**	**—**	**271**	**—**	**—**
Changes in foreign currency translation	**—**	**—**	**—**	**—**	**—**	**431**	**—**
Cash dividends (¥13.00 per share)	**—**	**—**	**—**	**(2,289)**	**—**	**—**	**—**
Bonuses to directors	**—**	**—**	**—**	**(66)**	**—**	**—**	**—**
Gain on sale of treasury stock	**—**	**—**	**3**	**—**	**—**	**—**	**—**
Treasury stock acquired, net (123,205 shares)	**—**	**—**	**—**	**—**	**—**	**—**	**(133)**
Balance as at March 31, 2005	**176,603,881**	**¥ 27,672**	**¥ 25,654**	**¥ 90,807**	**¥ 9,243**	**¥ (380)**	**¥ (496)**

	Thousands of U.S. dollars (Note 4)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock at Cost
Balance as at March 31, 2004	$ 258,617	$ 239,726	$ 795,776	$ 83,849	$ (7,580)	$ (3,389)
Net income	**—**	**—**	**74,900**	**—**	**—**	**—**
Changes in unrealized gain on available-for-sale securities, less applicable taxes	**—**	**—**	**—**	**2,532**	**—**	**—**
Changes in foreign currency translation	**—**	**—**	**—**	**—**	**4,027**	**—**
Cash dividends ($0.12 per share)	**—**	**—**	**(21,389)**	**—**	**—**	**—**
Bonuses to directors	**—**	**—**	**(619)**	**—**	**—**	**—**
Gain on sale of treasury stock	**—**	**26**	**—**	**—**	**—**	**—**
Treasury stock acquired, net (123,205 shares)	**—**	**—**	**—**	**—**	**—**	**(1,242)**
Balance as at March 31, 2005	**$ 258,617**	**$ 239,752**	**$ 848,668**	**$ 86,381**	**$ (3,553)**	**$ (4,631)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	**2005**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ 15,666**	¥ 25,063	**$ 146,415**
Adjustments—			
Depreciation and amortization	**6,452**	6,447	**60,304**
Impairment loss	**36**	5,532	**332**
Write-down of consolidation goodwill	**450**	364	**4,201**
Provision for (reversal of) doubtful account	**(294)**	(368)	**(2,750)**
Provision for (reversal of) severance indemnities, less payments	**2,500**	(12,797)	**23,365**
Interest and dividends income	**(437)**	(372)	**(4,080)**
Interest expense	**752**	590	**7,027**
Equity in earnings of affiliates	**(329)**	(163)	**(3,079)**
Losses on devaluation of marketable securities and investment securities	**5**	14	**42**
Losses (gains) on sales of marketable securities and investment securities, net	**(770)**	(110)	**(7,197)**
Losses (gains) on disposal of fixed assets, net	**350**	(25)	**3,273**
Gains on liquidation of subsidiaries	**—**	(56)	**—**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	**(3,906)**	9,667	**(36,501)**
Inventories	**(5,562)**	(1,013)	**(51,985)**
Other current assets	**3,198**	4,220	**29,889**
Notes and accounts payable, trade	**688**	(8,064)	**6,430**
Advances received from customers	**(2,515)**	3,771	**(23,500)**
Other current liabilities	**1,537**	1,519	**14,364**
Other	**168**	(233)	**1,570**
Total	**17,989**	33,984	**168,120**
Interest and dividends income received	**477**	371	**4,459**
Interest paid	**(746)**	(589)	**(6,968)**
Income taxes paid, net	**(11,036)**	(7,804)	**(103,137)**
Net cash provided by operating activities	**6,685**	25,962	**62,474**
Cash flows from investment activities:			
Payments for purchases of marketable securities	**—**	(2,899)	**—**
Proceeds from sales of marketable securities	**158**	2,947	**1,476**
Payments for purchases of fixed assets	**(10,217)**	(6,291)	**(95,489)**
Proceeds from sales of fixed assets	**3,905**	3,627	**36,491**
Payments for purchases of intangible assets	**(1,746)**	(1,525)	**(16,316)**
Payments for purchases of investment securities	**(4,254)**	(8,083)	**(39,757)**
Proceeds from sales of investment securities	**1,437**	2,512	**13,428**
Proceeds form liquidation of subsidiaries	**—**	272	**—**
Payments for long-term loans receivable	**(81)**	(79)	**(753)**
Repayments of long-term loans receivable	**256**	2,278	**2,389**
Decrease (increase) in short-term loans receivable	**(1,702)**	(1,164)	**(15,904)**
Net proceeds from purchase of stock in subsidiary newly consolidated	**—**	221	**—**
Other	**(651)**	537	**(6,081)**
Net cash provided by (used in) investment activities	**(12,895)**	(7,646)	**(120,516)**
Cash flows from financing activities:			
Proceeds from long-term debt	**165**	2,392	**1,546**
Repayments of long-term debt	**(2,721)**	(3,077)	**(25,434)**
Increase (decrease) in short-term borrowings	**(2,095)**	2,053	**(19,578)**
Dividends paid	**(2,289)**	(2,030)	**(21,390)**
Other	**(147)**	(73)	**(1,375)**
Net cash used in financing activities	**(7,087)**	(735)	**(66,231)**
Effect of exchange rate changes on cash and cash equivalents	**(87)**	(298)	**(811)**
Net increase (decrease) in cash and cash equivalents	**(13,384)**	17,283	**(125,084)**
Cash and cash equivalents at the beginning of the year	**69,312**	52,029	**647,776**
Cash and cash equivalents at the end of the year (Note 11)	**¥ 55,928**	¥ 69,312	**$ 522,692**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

1. Nature of Operations

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

2. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

As permitted amounts of less than one million yen are rounded in this annual report. (Until previous annual report, amounts of less than one million yen had been omitted.)

3. Summary of Significant Accounting Policies

(1) Accounting Changes

Accounting Standards for Impairment of Fixed Assets

Fixed asset impairment accounting standards (Business Accounting Council Statement of Position relating to the setting of accounting standards for the impairment of fixed assets - August 9, 2002) and principles governing the application of asset impairment accounting standards (Principle 6 of the Application of Business Accounting Standards - October 31, 2003) can be applied to consolidated financial statements from the fiscal year that ended on March 31, 2004. These accounting standards and application principles were applied during the fiscal year ended March 31, 2004. Compared to figures calculated under the previous method, the impact of these changes was to decrease net income before income taxes and minority interests by 5,532 million yen in fiscal 2004. This impairment amount has been deducted from the book value of fixed assets in accordance with revised regulations on the reporting of consolidated financial statements.

(2) Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and, with exceptions which are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period. Immaterial difference are expensed when incurred.

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statements of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) Accrued employees' bonuses

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

(f) Warranty reserve for completed construction

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

The warranty reserve for completed construction is included in other current liabilities.

(g) Accrued employees' retirement benefits

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

Prior service costs and unrecognized actuarial gains (losses) are amortized in the fiscal year in which they arise.

(h) Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors are provided based on the amount required for the year-end in accordance with the established Company's internal regulations. Any amounts eventually payable to directors and corporate auditors upon retirement are subjected to approval by the shareholders.

(i) Reserve for restructuring costs

The allowance for restructuring costs is stated at the estimated loss on restructuring of discontinued operation at the end of the fiscal year.

The balance of this reserve at March 31, 2005, which was included in other current liabilities on the accompanying consolidated balance sheets, was ¥1,867 million (US $17,446 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

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

(k) Inventories

Inventories other than finished goods are stated at cost, which is determined by the specific identification method.

Finished goods are stated at moving average cost.

(l) Property, plant and equipment

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

(m) Timberland

Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost. The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in Years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1–6	Weeding
8	Vine cutting
10–14	Salvage cutting
14	Pruning
16–25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(n) Revenue recognition

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

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

Contract revenues, representing revenues from custombuilt houses, are recorded when the completed houses are accepted by customers.

(o) Finance leases

Finance leases of the Companies, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(p) Income taxes

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

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

(q) Appropriations of retained earnings

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

(r) Earnings per share of common stock

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

(s) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2004 have been reclassified to conform to presentation in 2005.

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥107=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2005. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. Securities

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2005 and 2004 were as follows;

	Millions of yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . .	**¥ 21,385**	**¥ 15,751**	**¥ (249)**	**¥ 36,886**
Debt securities	**—**	**—**	**—**	**—**
Held-to-maturity:				
Debt securities	**¥ 31,334**	**¥ —**	**¥ —**	**¥ 31,334**

	Millions of yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . .	¥ 19,613	¥ 15,110	¥ (121)	¥ 34,602
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	¥ 39,603	¥ —	¥ —	¥ 39,603

	Thousands of U.S. dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . .	**$199,857**	**$147,204**	**$ (2,332)**	**$ 344,729**
Debt securities	**—**	**—**	**—**	**—**
Held-to-maturity:				
Debt securities	**$292,839**	**$ —**	**$ —**	**$ 292,839**

Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Proceeds	**¥ 1,437**	¥ 2,490	**$ 13,428**
Gross gains	**806**	110	**7,537**
Gross losses	**36**	0	**340**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005			
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due within one year . . .	**¥ —**	**¥ 31,045**	**$ —**	**$ 290,141**
Due after one year through five years	**—**	**289**	**—**	**2,698**
	¥ —	**¥ 31,334**	**$ —**	**$ 292,839**

The difference between the above cost and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

6. Timberland

The investment in timberland at March 31, 2005 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Standing timber:			
Mature timber	**¥ 10,572**	¥ 10,472	**$ 98,804**
Growing timber	**522**	611	**4,878**
	11,094	11,083	**103,682**
Land	**478**	478	**4,465**
	¥ 11,572	¥ 11,561	**$ 108,147**

The timberland accounts at March 31, 2005 and 2004 were reduced by ¥268 million (US$2,508 thousand) and ¥268 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2005 and 2004 generally represented short-term borrowings which bore interest of 3.30% and 1.74% per annum, respectively. Long-term debt at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans, principally from banks and insurance companies, due 2006 to 2009 with interest of 6.73%:			
Secured	**¥ 6,600**	¥ 7,791	**$ 61,686**
Unsecured	**2,305**	3,177	**21,539**
Debenture bonds:			
0.35 basis points	**180**	240	**1,682**
0.64 basis points	**100**	100	**935**
	9,185	11,308	**85,842**
Portion due within one year	**956**	1,007	**8,933**
	¥ 8,229	¥ 10,300	**$ 76,909**

The following assets were pledged to secure bank loans and long-term debt at March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Receivables-			
Notes and accounts, trade	**¥ 518**	¥ 205	**$ 4,840**
Finished goods, logs and lumber	**1,022**	524	**9,548**
Land	**1,454**	2,694	**13,587**
Buildings and structures	**3,683**	4,176	**34,423**
Machinery and equipment	**9,315**	9,416	**87,060**
Timberland	**2,199**	2,118	**20,547**
	¥ 18,191	¥ 19,133	**$ 170,005**

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

YEARS ENDING MARCH 31,	Millions of yen	Thousands of U.S. dollars
2006	**¥ 956**	**$ 8,933**
2007	**1,132**	**10,575**
2008	**5,429**	**50,737**
2009	**1,660**	**15,513**
2010	**9**	**84**
Thereafter	**—**	**—**
	¥ 9,185	**$ 85,842**

8. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rate for fiscal 2005 was 40.0%. In accordance with a change to a portion of the Local Tax Law, effective from the year beginning April 1, 2004, the statutory tax rate was changed from 42.0% to 40.0%.

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

	2005	2004
Statutory tax rate	**40.0 %**	42.0 %
Non-deductible expense for purposes	**1.2**	0.8
Per capita portion of Inhabitant Tax	**1.7**	0.9
Amortization of consolidation differences	**1.1**	0.6
Effect of tax rate changes	**—**	1.2
Valuation allowance	**6.5**	17.2
Special deduction on corporate income taxes	**(1.7)**	—
Other	**(0.7)**	(2.3)
Effective income tax rate	**48.1 %**	60.5 %

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Accrued employees' bonuses	**¥ 3,006**	¥ 3,033	**$ 28,096**
Provision for guarantee for after-cost of construction	**406**	313	**3,797**
Advances received	**413**	437	**3,863**
Accrued enterprise taxes	**325**	577	**3,036**
Devaluation of real estate for sale and other assets	**4,428**	4,914	**41,380**
Devaluation of property, plant and equipment	**550**	550	**5,144**
Impairment loss	**2,082**	2,213	**19,461**
Pension and severance costs	**6,401**	6,400	**59,824**
Unrealized intercompany profit	**471**	357	**4,403**
Tax loss carryforward	**2,045**	2,525	**19,112**
Loss on business restructuring	**747**	—	**6,978**
Other	**2,404**	2,642	**22,471**
Gross deferred tax assets	**23,279**	23,962	**217,565**
Valuation allowance	**(6,552)**	(7,154)	**(61,230)**
Total deferred tax assets	**16,728**	16,808	**156,335**
Deferred tax liabilities:			
Deferred gains on sales of property	**(1,091)**	(1,091)	**(10,196)**
Unrealized gain on available-for-sale securities	**(6,197)**	(5,990)	**(57,918)**
Gain on securities contributed to employee retirement benefit trust	**(1,590)**	(1,627)	**(14,863)**
Other	**(403)**	(588)	**(3,764)**
Gross deferred tax liabilities	**(9,281)**	(9,296)	**(86,741)**
Net deferred tax assets	**¥ 7,447**	¥ 7,512	**$ 69,594**

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2005 and 2004 as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current assets-			
Deferred income taxes	**¥ 8,513**	¥ 8,323	**$ 79,565**
Investment and other assets-			
Deferred income taxes	**1,193**	1,230	**11,146**
Current liabilities-			
Other	**—**	—	**—**
Long-term liabilities-			
Deferred income taxes	**(2,259)**	(2,041)	**(21,117)**
Net deferred tax assets	**¥ 7,447**	¥ 7,512	**$ 69,594**

9. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Gain on sales of property, plant and equipment	**¥ 37**	¥ 34	**$ 349**
Gain on sales of investment securities	**806**	110	**7,537**
Loss on sales of investment securities	**(36)**	—	**(340)**
Other, net	**588**	(25)	**5,497**
	¥ 1,396	¥ 119	**$ 13,043**

10. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2005 and 2004 were ¥883 million (US$8,251 thousand) and ¥926 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash and time deposits	**¥ 25,188**	¥ 30,169	**$ 235,406**
Short-term investments	**30,798**	39,198	**287,833**
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	**(59)**	(56)	**(547)**
Cash and cash equivalents	**¥ 55,928**	¥ 69,312	**$ 522,692**

12. Shareholders' Equity

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be designated as the common stock account. The portion to be designated as the common stock account is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as the common stock account are credited to capital surplus account.

The Code provides that an amount equivalent to a minimum of 10% of cash dividends and other distributions from retained earnings paid by the Companies be appropriated as a legal reserve. No further appropriation is required when the total amount of capital surplus account and legal reserve equals 25% of the common stock account. The balance of the reserve may be used to reduce a deficit and/or may be transferred to the common stock account.

The Code also provides that, to the extent the sum of capital surplus account and legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders meeting.

The balances of the legal reserve of the Company at March 31, 2005 and 2004, which were included in retained earnings on the accompanying consolidated balance sheets, were ¥2,857 million (US$26,702 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code. Year-end dividends are reflected in the consolidated statements of shareholders' equity when authorized.

13. Finance Leases

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2005 and 2004 were ¥4,798 million (US$44,844 thousand) and ¥5,167 million, respectively.

The leased assets and related expenses of the Companies' finance leases, other than those where the ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Buildings and structures	**¥ 10,081**	¥ 12,574	**$ 94,218**
Machinery and equipment	**5,885**	8,689	**55,001**
Other	**101**	191	**946**
Accumulated depreciation	**(8,118)**	(12,467)	**(75,868)**
Accumulated Impairment loss	**(12)**	(379)	**(110)**
	¥ 7,938	¥ 8,606	**$ 74,187**

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Depreciation	**¥ 4,604**	¥ 4,955	**$ 43,023**
Interest expenses	**164**	185	**1,536**
Impairment loss	**—**	(379)	**—**

Depreciation costs are calculated based on the straightline method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current obligation	**¥ 3,409**	¥ 4,052	**$ 31,859**
Long-term obligation	**4,637**	5,069	**43,339**
Present value of lease payments	**¥ 8,046**	¥ 9,121	**$ 75,198**
Impairment loss on leased assets	**¥ 7**	¥ 379	**$ 63**

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2005 and 2004 were ¥149 million (US$1,392 thousand) and ¥195 million, respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the leased assets is transferred to the lessee and are being accounted for as operating leases at March 31, 2005 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Machinery and equipment	**¥ 497**	¥ 931	**$ 4,646**
Other	**11**	4	**102**
Accumulated depreciation	**(265)**	(670)	**(2,477)**
	¥ 243	¥ 265	**$ 2,271**

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Depreciation	**¥ 128**	¥ 172	**$ 1,200**
Interest income	**18**	22	**165**

Interest income is calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest receipts over the lease periods, are allocated to each period by the interest method. The present values of future lease receipts for the Companies at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current obligation	**¥ 86**	¥ 116	**$ 805**
Long-term obligation	**156**	151	**1,461**
Present value of lease receipts	**¥ 242**	¥ 267	**$ 2,266**

14. Contingent Liabilities

Contingent liabilities as at March 31, 2005 and 2004, for loans guaranteed amounted to ¥11,490 million (US$107,383 thousand) and ¥7,228 million, and for notes discounted and endorsed in the ordinary course of business amounted to NIL and ¥47 million, respectively.

15. Derivatives and Hedging Activities

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps, and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

16. Severance Indemnity Benefits and Pension Plans

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

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

Retirement benefits are calculated based on the employees basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

In October 2002, following the enactment of Defined Benefit Corporate Pension Law, the Company and some of its domestic consolidated subsidiaries were authorized by the Minister of Health, Labor and Welfare to be exempted from the future employee benefit obligation related to the substituted government's portion of pension benefits provided by social welfare pension funds.

The Company and some of its domestic consolidated subsidiaries recognized the cancellation of both the employee benefit obligation associated with substituted portion of pension benefits and the pension assets equivalent to the amount returned to the government, and treated accordingly; the Company adapted the transitional means designated in the Article 47-2, "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants.

In March 2004, the Company and some of its domestic consolidated subsidiaries revised their non-contributory funded defined benefit pension plan and decided to introduce a cash balance pension plan.

Under the cash balance pension plan, each participant is given an account into which is credited the amount calculated yearly based on the re-evaluation rate which is derived from current compensation and market interest rate. This revision of the plan brought about a reduction in the employee retirement benefit obligation of the Company and some of its domestic consolidated subsidiaries.

The liability for employee's retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ (38,546)**	¥ (33,394)	**$ (360,243)**
Fair value of plan assets	**24,631**	21,978	**230,195**
Unrecognized actuarial loss	**—**	—	**—**
Unrecognized prior service cost	**—**	—	**—**
Prepaid pension cost	**—**	—	**—**
Net liability for retirement benefits	**¥ (13,915)**	¥ (11,417)	**$ (130,048)**

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 2,949**	¥ 3,288	**$ 27,557**
Interest cost	**777**	1,052	**7,264**
Expected return on plan assets	**(150)**	(128)	**(1,402)**
Recognized actuarial gain (loss)	**(209)**	(4,280)	**(1,949)**
Amortization of prior service cost	**—**	(9,441)	**—**
Net periodic benefit costs	**¥ 3,367**	¥ (9,508)	**$ 31,470**

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

Assumptions used for the year ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	**2.0 %**	2.1 %
Expected rate of return on plan assets	**0.7 %**	0.7 %
Recognition period of actuarial gain/loss	**1 year**	1 year
Amortization of prior service cost	**1 year**	1 year

17. Segment Information

a) Industry segment information—

The Companies' business is classified into the following three segments based on the similarities of the types and nature of business:

Timber and building materials: manufacturing or purchasing and sale of timber and building materials

Housing: construction of houses, buildings and their exteriors, gardening, planting, sale of interiors and brokerage of real estate

Other: leasing, golf course management and other

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

	Millions of yen					
YEAR ENDED MARCH 31, 2005	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	**¥ 301,696**	**¥ 418,031**	**¥ 3,466**	**¥ 723,193**	**¥ —**	**¥ 723,193**
Intersegment transfers	**18,559**	**281**	**9,719**	**28,560**	**(28,560)**	**—**
Total	**320,255**	**418,313**	**13,185**	**751,753**	**(28,560)**	**723,193**
Operating expenses	**315,640**	**400,783**	**12,447**	**728,869**	**(24,142)**	**704,727**
Operating income	**¥ 4,615**	**¥ 17,530**	**¥ 738**	**¥ 22,884**	**¥ (4,418)**	**¥ 18,466**
Identifiable assets, depreciation and capital investment:						
Identifiable assets	**¥ 157,840**	**¥ 108,705**	**¥ 8,650**	**¥ 275,196**	**¥ 95,488**	**¥ 370,684**
Depreciation and amortization	**3,113**	**2,270**	**601**	**5,985**	**468**	**6,452**
Impairment loss	**—**	**—**	**—**	**—**	**36**	**36**
Capital investment	**2,949**	**4,403**	**754**	**8,107**	**1,131**	**9,237**

	Millions of yen					
YEAR ENDED MARCH 31, 2004	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥ 277,034	¥ 393,507	¥ 3,238	¥ 673,779	¥ —	¥ 673,779
Intersegment transfers	16,187	109	9,112	25,408	(25,408)	—
Total	293,220	393,616	12,350	699,187	(25,408)	673,779
Operating expenses	289,407	376,467	11,706	677,580	(21,378)	656,202
Operating income	¥ 3,813	¥ 17,150	¥ 644	¥ 21,607	¥ (4,030)	¥ 17,577
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 146,169	¥ 108,160	¥ 7,893	¥ 262,223	¥ 107,532	¥ 369,755
Depreciation and amortization	2,959	2,225	627	5,811	635	6,447
Impairment loss	—	2,414	3,117	5,532	—	5,532
Capital investment	1,723	3,162	999	5,884	507	6,392

YEAR ENDED MARCH 31, 2005	Thousands of U.S. dollars					
	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	**$ 2,819,592**	**$ 3,906,836**	**$ 32,389**	**$ 6,758,817**	**$ —**	**$ 6,758,817**
Intersegment transfers	**173,450**	**2,630**	**90,832**	**266,912**	**(266,912)**	**—**
Total	**2,993,042**	**3,909,466**	**123,221**	**7,025,729**	**(266,912)**	**6,758,817**
Operating expenses	**2,949,909**	**3,745,632**	**116,322**	**6,811,863**	**(225,625)**	**6,586,238**
Operating income	**$ 43,133**	**$ 163,834**	**$ 6,899**	**$ 213,866**	**$ (41,287)**	**$ 172,579**
Identifiable assets, depreciation and capital investment:						
Identifiable assets	**$ 1,475,145**	**$ 1,015,936**	**$ 80,843**	**$ 2,571,924**	**$ 892,414**	**$ 3,464,338**
Depreciation and amortization	**29,098**	**21,218**	**5,615**	**55,931**	**4,373**	**60,304**
Impairment loss	**—**	**—**	**—**	**—**	**332**	**332**
Capital investment	**27,564**	**41,153**	**7,046**	**75,763**	**10,567**	**86,330**

Notes: (Year ended March 31, 2004)

As stated in Note 3 (1), fixed asset impairment standards (Business Accounting Council Statement of Position relating to the setting of accounting standards for the impairment of fixed assets-August 9, 2002) and principles governing the application of asset impairment accounting standards (Principle 6 of the Application of Business Accounting Standards-October 31, 2003) can be applied to consolidated financial statements from the fiscal year that ended on March 31, 2004. These accounting standards and application principles were applied during fiscal 2004. The effect of this change on the segment information was to decrease assets of housing and other segment by ¥2,414 million and ¥3,117 million in fiscal 2004, respectively.

Change in the business segment information

In the year ended March 31,2004, the Companies changed the grouping of business segment. Brokerage of real estate business in other segment was converted to housing segment. This change was made for better presentation of segment information in line with the current business operations.

Due to the change in the business segment, in the year ended March 31, 2004 sales in housing segment was increased by ¥6,061 million and sales in other segment was decreased by ¥5,859 million, operating expenses increased ¥5,694 million in housing segment and decreased ¥5,584 million in other segment and operating profit increased ¥367 million in housing segment and decreased ¥275 million in other segment.

b) Geographical segment information—

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

YEAR ENDED MARCH 31, 2005	Millions of yen				
	Domestic	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	**¥ 705,184**	**¥ 18,009**	**¥ 723,193**	**¥ —**	**¥ 723,193**
Intersegment transfers	**1,775**	**16,341**	**18,116**	**(18,116)**	**—**
Total	**706,959**	**34,350**	**741,309**	**(18,116)**	**723,193**
Operating expenses	**685,231**	**33,196**	**718,427**	**(13,699)**	**704,727**
Operating income	**¥ 21,727**	**¥ 1,155**	**¥ 22,882**	**¥ (4,416)**	**¥ 18,466**
Identifiable assets, depreciation and capital investment:					
Identifiable assets	**¥ 246,885**	**¥ 32,518**	**¥ 279,403**	**¥ 91,281**	**¥ 370,684**

YEAR ENDED MARCH 31, 2004	Millions of yen				
	Domestic	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	¥ 659,703	¥ 14,076	¥ 673,779	¥ —	¥ 673,779
Intersegment transfers	1,690	16,455	18,145	(18,145)	—
Total	661,392	30,531	691,924	(18,145)	673,779
Operating expenses	639,900	30,514	670,414	(14,211)	656,202
Operating income	¥ 21,493	¥ 17	¥ 21,510	¥ (3,933)	¥ 17,577
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 231,051	¥ 29,523	¥ 260,574	¥ 109,181	¥ 369,755

YEAR ENDED MARCH 31, 2005	Thousands of U.S. dollars				
	Domestic	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	**$ 6,590,506**	**$ 168,311**	**$ 6,758,817**	**$ —**	**$ 6,758,817**
Intersegment transfers	**16,586**	**152,721**	**169,307**	**(169,307)**	**—**
Total	**6,607,092**	**321,032**	**6,928,124**	**(169,307)**	**6,758,817**
Operating expenses	**6,404,031**	**310,239**	**6,714,270**	**(128,032)**	**6,586,238**
Operating income	**$ 203,061**	**$ 10,793**	**$ 213,854**	**$ (41,275)**	**$ 172,579**
Identifiable assets, depreciation and capital investment:					
Identifiable assets	**$ 2,307,336**	**$ 303,907**	**$ 2,611,243**	**$ 853,095**	**$ 3,464,338**

c) Overseas sales information—

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

18. Net Income Per Share

The computation of net income per share for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Numerator for net income per share:			
Net income	**¥ 8,014**	¥ 9,870	**$ 74,900**
Income not available to common stockholders	**(44)**	(40)	**(408)**
Income available to common stockholders	**7,971**	9,830	**74,492**
Denominator for net income per share:			
Weighted average number of shares issued	**176,015,931**	176,123,714	

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Forestry Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 3 (1) to the consolidated financial statements, the Company and subsidiaries adopted new accounting standard for impairment of fixed assets in the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon

June 29, 2005

Stock Information

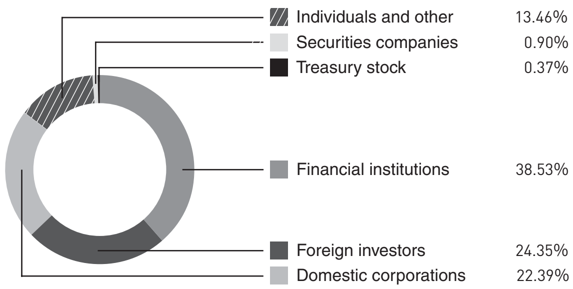
Stock Exchange Listings: Tokyo, Osaka

Common Stock
Authorized: 400,000,000 shares
Issued: 176,603,881 shares

Number of Shareholders: 11,555

General Meeting of Shareholders: June

Breakdown of Shareholders:



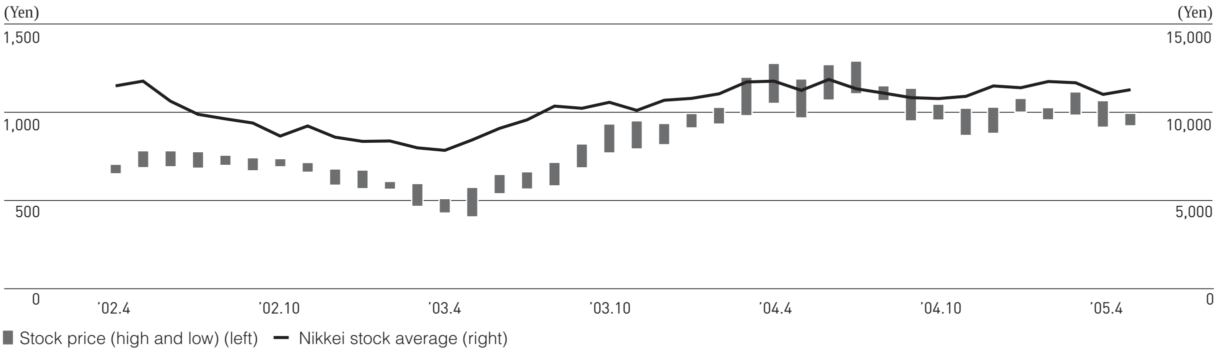
(As of March 31, 2005)

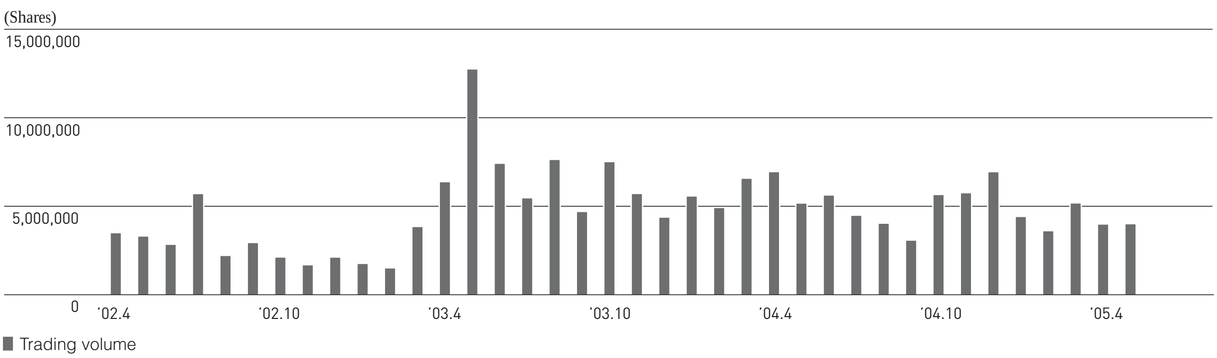
Major Shareholders:

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	15,875	8.99
Sumitomo Metal Mining Co., Ltd.	10,110	5.72
The Iyo Bank, Ltd.	5,850	3.31
Japan Trustee Service Bank, Ltd. (trust account)	5,220	2.96
Sumitomo Corporation	4,383	2.48
Sumitomo Life Insurance Company	4,227	2.39
The Hyakujushi Bank, Ltd.	4,198	2.38
Sumitomo Mitsui Banking Corporation	4,136	2.34
Nomura Trust and Banking Co., Ltd. (trust account)	4,000	2.26
State Street Bank and Trust Company	3,789	2.15

(As of March 31, 2005)

Stock Price and Trading Volume:
(Osaka Securities Exchange)





Corporate Data

Company Name: Sumitomo Forestry Co., Ltd.

Founded: 1691

Incorporated: 1948

Paid-in Capital: ¥27,672 million

Head Office: Marunouchi Trust Tower North
8-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8270, Japan
Tel: 81-3-6730-3500
Fax: 81-3-6730-3504

Consolidated Subsidiaries: 40 (Overseas 10)

Associated Companies: 6 (Overseas 5)

Number of Employees (Consolidated): 10,477

Homepage: http://www.sfc.co.jp/e

Independent Auditors: SHIN NIHON & CO.

Transfer Agent and Registrar: The Sumitomo Trust and Banking Co., Ltd.
Stock Transfer Agency Department
4-4, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan

(As of March 31, 2005)

For further information, please contact:

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

SUMITOMO FORESTRY CO.,LTD.
Marunouchi Trust Tower North 8-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Tel: 81-3-6730-3500 Fax: 81-3-6730-3504
URL: http://www.sfc.co.jp/e

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