

Special Feature Part 1: Focusing Efforts on New Core Businesses

We at Sumitomo Forestry are preparing to take a more aggressive management stance in fiscal 2006 and beyond by making it a priority to accelerate the development of businesses that we believe will be the next generation of earnings drivers. These businesses include the overseas operations, the collective housing business, and the housing stock business. We believe these businesses will help us continue to grow amid a mature domestic detached housing market.



Manufacturing plant in Nelson Pine Industries Limited

1. Overseas Operations

To meet various timber and building materials needs, we have expanded our business bases to various areas around the world, including North America, Europe, Asia, and Oceania. At present, overseas operations account for only 4.5% of the Group's consolidated sales, but going forward we intend to make overseas operations one of new core business. To that end, we are working to fully establish a sales network, primarily targeting the Pacific Rim market, and are seeking new overseas business opportunities in housing and other operations.

History and Present Status

The Sumitomo Forestry Group has to date expanded its manufacturing, processing, and distribution bases in the Asia-Pacific region, centering on the manufacture and sales of wooden build-

ing materials. Initially, overseas operations primarily involved the manufacture of products for the Japanese market, but today, products for other markets account for more than half of the sales of all products manufactured overseas.

P. T. Kutai Timber Indonesia (KTI) has been established as a company for forest development. Upon being invited by the Indonesian government to manufacture products using sophisticated processing techniques, KTI started plywood manufacturing and timber processing in 1974, and subsequently expanded wood processing operations in Indonesia. In addition, P. T. Rimba Partikel Indonesia (RPI) manufactures particleboard using wood waste generated by Indonesia's largest plywood manufacturer.



Main Overseas Bases (Manufacturing, Distribution, and Housing)

	Company Name (% of shares hold by Sumitomo Forestry)	Location	Operations
Manufacturing	P.T. Kutai Timber Indonesia (KTI) (99%)	Java, Indonesia	Manufacture and sales of plywood, laminated plywood products, and processed wood products. Established in 1970 as a base for forest development. Local plywood plant built in 1974.
	P.T. Rimba Partikel Indonesia (RPI) (50%)	Java, Indonesia	Manufacture and sales of particleboard. Established in 1990.
	P.T. AST Indonesia (50%)	Java, Indonesia	Manufacture of wooden speakers for audiovisual equipment. Established in 1996.
	Nelson Pine Industries Limited (NPIL) (100%)	Nelson, New Zealand	Manufacture and sales of MDF and LVL. Currently has three MDF manufacturing lines with annual production capacity of 350,000 cubic meters. MDF manufacturing facility came fully on-stream in 1986. Manufacture of dry veneer and LVL began in 2001 and 2002, respectively.
	Alpine MDF Industries Pty Ltd. (100%)	Victoria, Australia	MDF manufacturing and sales. Acquired as Dominance Industries Pty Ltd. in 2002.
Distribution	Sumitomo Forestry (Singapore) Ltd. (100%)	Singapore	Purchasing and sale of timber and building materials.
	Sumitomo Forestry Seattle, Inc. (100%)	Washington, USA	Purchasing and sale of timber and building materials. Management of Bennett-SFS LLC
	Pacific Wood Products LLC (100%)	Washington, USA	Purchasing and sale of timber and building materials. Acquired in April 2002.
Housing	Bennett-SFS LLC (100%)	Washington, USA	Sales of built-for-sale housing

In New Zealand, our ties with the government have deepened as a result of our imports of Radiata Pine. Following the launch of joint ventures in the area of wood-based panel manufacturing, we established Nelson Pine Industries Ltd. (NPIL) in 1984 as a manufacturer of high quality medium-density fiberboard (MDF), later making it a wholly owned subsidiary. NPIL produces 350,000 cubic meters of MDF a year, one of the largest production volume of any single MDF manufacturing facility in the world. Even so, in light of the growth potential of demand for MDF, in 2002 we purchased an Australian MDF manufacturer, renaming it Alpine MDF Industries Pty Ltd. Combined, these two companies have total MDF capacity of 500,000 cubic meters per year, one of the highest production volume in the Pacific Rim.

In fiscal 2004, the Group's main overseas operations struggled, largely on the impact of sharp fluctuations in foreign exchange rates. As a result, recurring income from overseas operations fell ¥1.0 billion year on year, to ¥31 million. However, we believe optimization of production and sales systems are on track, and have actually seen recoveries both in production and sales thus far in fiscal 2005 in the wake of stabilization of market prices and foreign exchange rates.

Present Conditions by Operation

(1) Timber and Building Materials Manufacture and Sales

KTI is no longer just a manufacturer of high quality plywood—it is transforming itself into a general processed wood company that manufactures a wide range of products, including laminated veneer lumber (LVL) and blockboard, which uses falcataria trees (a fast-growing tree species used for reforestation) as a material. The company also sells new building materials and housing equipment, not only in Japan and Southeast Asia, but in Europe as well. RPI manufactures particleboard for the Indonesian market, but is also working to develop other high value-added products.

NPIL and Alpine MDF, both of which manufacture MDF, are

working to further expand their businesses in the Pacific Rim market, including China and Southeast Asia, where demand is growing. They are in the process of formulating new business strategies, involving both their manufacturing and sales operations.

(2) Housing Sales

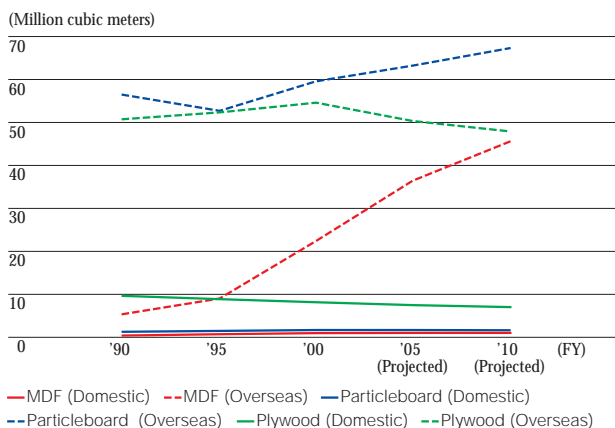
With the domestic housing market contracting, we are pursuing the growth potential of overseas markets in the field of housing as well as timber and building materials.

The U.S. housing market, which has undergone a construction boom in recent years, contrasts sharply from the fully mature Japanese market. In the U.S., there have been more than 1.5 million housing starts per year since 1998. In 2003, there were 1.845 million housing starts in the U.S., or roughly 1.5 times more than in Japan. Detached houses accounted for 81% of total housing starts in the U.S. in 2003, or around 1.5 million. This was a new record high, eclipsing the previous high (1.45 million in 1977) by a wide margin.

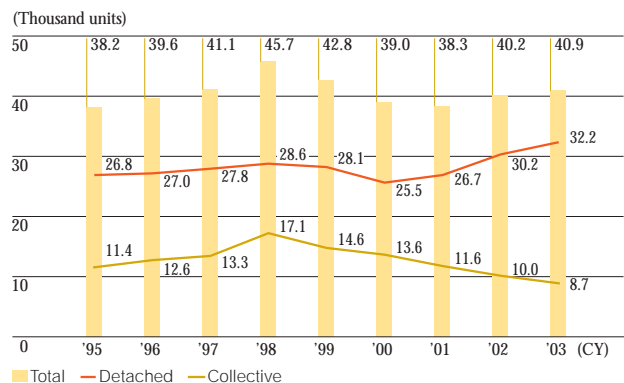
Major Advances in the Sumitomo Forestry Group's Entry into the U.S. Housing Market

September 2002	Establishment of Bennett-SFS LLC, a joint venture between subsidiary Sumitomo Forestry Seattle, Inc. (Washington) and local housing company Bennett Homes, Inc.
October 2002	Work begins on a pilot project involving construction and sale of two detached built-for-sale houses in the Beaver Lake area of Sammamish, Washington, located east of Seattle. Transfer of title takes place in May 2003.
April 2003	Construction begins on eight lots of Issaquah Highlands, a large-scale Master Plan Community in Issaquah, Washington. Seven houses have already been sold.
October 2003	An integrated project ranging from land development to sale of houses on 15 lots gets under way in Pine Lake Area of Sammamish.
November 2003	Land for 42 houses purchased for Issaquah Highlands. All houses pre-sold and the construction is currently underway. Title is being transferred in order of completion.
Present (August 2004)	Construction of a total of about 230 lots in Issaquah Highlands is in progress.

MDF, Particleboard, and Plywood Demand (Overseas and Domestic)



Housing Units Authorized (Detached Houses, Collective Houses) in Washington State, U.S.A



In suburban Seattle, where we operate, changes in the industrial structure are in progress and a number of rising industries have established their bases in the area. Thanks to the strict local regulations, however, the area does not suffer from an oversupply of housing in spite of the expected increase in population over the medium to long term. We therefore expect sustainable growth in this market.

In the Seattle suburb of Issaquah, we began construction of eight lots in April 2003, and we embarked on the integrated projects ranging from land development to sale of houses on a 15-lot portion in September 2003. Using the two-by-four method, which is the most common method in the U.S., we are building and selling mid- to high-end homes.

We plan to sell about 60 houses in fiscal 2005, and to establish a sales structure that will enable stable sales of 80-90 houses per year. Based on a thorough feasibility study conducted prior to the start of operations, we will target promising markets and expand our operations with a central focus on the Seattle area. When we have established our business model there, we will then consider entering housing-related businesses, such as housing land development, as well expanding our operations into other regions.

We are also considering entry into the Chinese market. With the remarkable economic growth of China, there is growing demand not just for a sufficient amount of housing, but for an improvement in housing quality. We are considering our options with regard to the timing of such an entry, with the goal of making a smooth entry into the Chinese market.

Future Goals and Strategies of Overseas Operations

Going forward, we will reinforce our overseas production system and implement thorough cost reductions. At the same time, to withstand the fluctuations in market prices and foreign exchange rates, we will work to make our overseas business structure strong and flexible. With the goal of strengthening existing overseas

businesses and promoting new overseas operations, we established a new International Business Headquarters in April 2004.

To boost overseas sales, we are aggressively developing markets other than Japan by targeting markets promising future growth, such as China, North America, and Southeast Asia, and fully utilizing our overseas sales bases such as Sumitomo Forestry (Singapore) Ltd. and Pacific Wood Products LLC (Washington, U.S.).

In fiscal 2005, we project that our subsidiaries and affiliates will generate a combined total of ¥1.3 billion in recurring income. In addition, our new medium-term business plan targets a simple combined total of ¥3.0 billion in recurring income from these companies in fiscal 2007.



2. Collective Housing Business

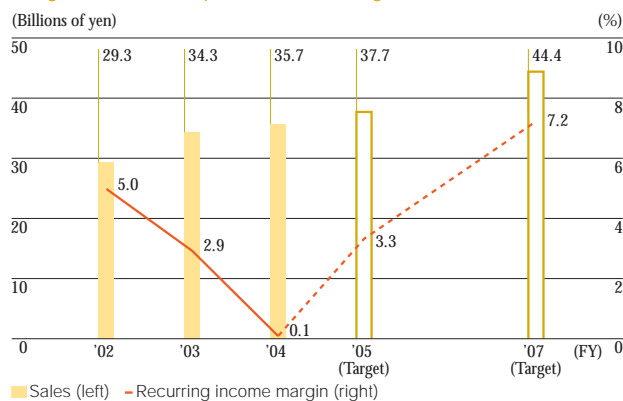
History and Present Status

With the increasing diversification of lifestyles, particularly in urban areas, there has been a shift toward the lease of housing, and demand for collective housing for leasing continues to grow. In fiscal 2003, the number of rental housing construction starts rose for the third straight year, totaling 458 thousand units (up 0.9% year on year).

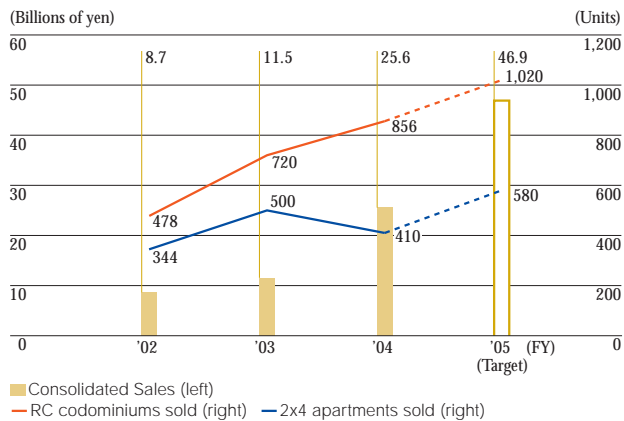
Sumitomo Forestry's collective housing-related business started in 1987, and became independent in 1991 as the Specific Building Headquarters. It then became the Collective Housing Headquarters in 2002, which it remains today. The business has bases in each of the three major urban areas, Tokyo, Osaka (Kinki) and Nagoya (Tokai). We are working to enhance information sharing between the Collective Housing Headquarters and the Housing Headquarters. To that end, in November 2003, the Collective Housing Headquarters began setting up satellite offices within the branch offices of the Housing Headquarters, and it established a sales office (the Saitama sales office) in close proximity to a Housing Headquarters branch office. In August 2003, the Group made rental property management company Sun Step Co., Ltd. (the ninth-largest company in its industry in sales) a subsidiary enabling the Group to provide landowners with total collective housing services rising from construction contracting to lease management.

Starting in fiscal 2003, we have taken steps to bolster our collective housing marketing, such as by holding seminars and enhancing its marketing tools. Orders have increased as a result, particularly for RC (reinforced concrete) condominiums, and in fiscal 2004 the number of collective housing completions rose 3.8% year on year, to 1,266 units, leading to higher sales and vastly improved recurring income.

Present State and Fiscal 2007 Targets of Sales and Recurring Income Margin in Overseas Operations (Including Internal Transaction)



Sales and Number of Completed Units (RC Condominiums and Two-By-Four Apartments)



Note: Sales of Sun Step Co., Ltd. are added to the figures for fiscal 2004 and 2005.

Future Goals and Strategies of the Collective Housing Business

Going forward, we will endeavor to expand operations, and aim to increase the number of sales bases from four at present to 10 nationwide. We are focusing particularly on strengthening and expanding apartment operations, and we intend to increase the ratio of apartment completions to total completions on a value basis from 23% in fiscal 2004 to 50% by fiscal 2007.

The Collective Housing Headquarters currently has about 130 employees, and we intend to increase the headcount roughly 80% by fiscal 2007. We will put effort into developing a sales force with wide ranging knowledge in such areas as market conditions, tax procedures, construction, and financing and also with the ability to make recommendations regarding land utilization.

Our efforts in the area of product development primarily involve urban rental housing, with an emphasis on high quality and distinct product individuality. This focus allows us to leverage our strengths, including free design and wood interiors, and utilize irregular plots of land, of which there are many in urban areas, in the most effective manner possible. We are also striving to offer complete apartment plans, thereby lowering costs for land owners.

We are also focusing on opening up new markets in fields in which our competitors have not established a presence by offering housing products with special functions including condominiums for music students who play musical instruments indoors, housing with day-service facilities for the elderly, and proposals for land originally not suited for the construction of apartments or condominiums.

In 10 years, over 25% of Japan's population is estimated to be 65 or over, and we are working aggressively in the market for the elderly. We are taking orders for collective housing with day-service facilities and are making land-use proposals in conjunction with the operators of day-service nursing care facilities. The value



Two-by-four wooden apartment houses

of such orders rose from roughly ¥1.0 billion (18 projects) in fiscal 2003 to around ¥1.9 billion (23 projects) in fiscal 2004, accounting for 11% of total order value (¥17.3 billion) in our collective housing business. Going forward, we plan to target not only individuals, but also companies thinking about entering the welfare business.

3. Housing Stock Business

History and Present Status

With sluggish growth in housing starts and lengthened life of housing, demand for remodeling and used home brokerage is increasing. In particular, the remodeling market is growing rapidly, and is estimated to reach ¥10 trillion in size by 2020.

The Sumitomo Forestry Group entered the real estate brokerage business in 1980 and the remodeling business in 1988. At present, Sumitomo Forestry Home Tech. Co., Ltd. ranks among top 20 in the remodeling industry, while Sumitomo Forestry Home Service Co., Ltd. is approximately the 10th largest company in the real estate brokerage industry. Thus, both companies are currently in the second tier of their respective industries.

As of the end of fiscal 2004, Sumitomo Forestry Home Tech, our remodeling business vehicle, had expanded its number of sales offices to 44 and essentially completed the process of establishing a nation-wide network throughout the Housing Headquarters' operating area. In collaboration with the Housing Headquarters, the number of remodeling orders rose 46% year on year in fiscal 2004, with the value of projects increasing 30%.

Sumitomo Forestry Home Service, our brokerage business vehicle, moved its headquarters to Tokyo in December 2003, in order to strengthen its operational base in the Tokyo metropolitan area. As of the end of fiscal 2004, the company had 46 offices (27 in the Kinki area, 15 in the Tokyo metropolitan area, and four in the Nagoya area), an increase of three locations from the previous year. The number of transactions rose 8.6%, to 3,723, with the value of transactions increasing 8.8%, to ¥4,196 million.

Future Goals and Strategies

In fiscal 2005, we will invest in expanding the sales office net-

work and in upgrading marketing capabilities. For that reason, we do not expect profitability from housing stock operations to increase substantially. In three years' time, however, for fiscal 2007 we aim for ¥55.0 billion in sales and ¥2.5 billion in recurring income, putting us in the top rank in this business.

(1) Remodeling

According to a government survey published in 2000, the total housing stock in Japan amounted to approximately 50 million units, of which owner-occupied housing accounts for around 25 million units. Wooden houses account for 83% of owner-occupied housing. Based on the expertise that we have amassed through our construction using the post-and-beam architectural method and strong design and technical capabilities, we have an extremely favorable position in the growing remodeling market. Going forward, we will endeavor to expand operations by working to increase profitability, improve construction quality, and strengthen our existing sales forces. In addition, having largely completed the building of our sales office network, we will strive to become more entrenched in each regional market. We aim to reinforce follow-ups with the customer base of Sumitomo Forestry Homes owners, and to develop a new customer base by leveraging our brand strength as the leading company in the post-and-beam architectural method.

Our salespeople are, for the most part, qualified architects, and through marketing capabilities based on design expertise and the introduction of our own estimating system, they are able to provide accurate and easy-to-understand plans. We promote our marketing activities based on our technical capabilities and thereby strive to differentiate ourselves from the competition. Of particular note is the fact that we are able to handle special cases requiring distinguished technical capabilities, such as the restoration of antique homes, which helps us win a number of high-value projects. In addition, we are endeavoring to further enhance customer satisfaction. Beginning in fiscal 2004, we offered for the first time in the industry a service with a guarantee



Remodeling work by Sumitomo Forestry Home Tech. Co., Ltd.

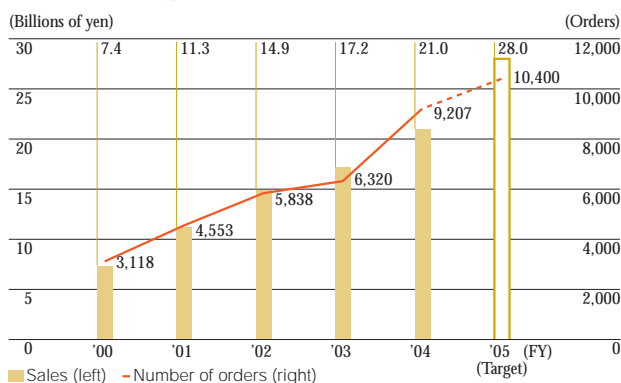
up to 10 years from the end of work and up to four free after-sales maintenance visits.

(2) Real Estate Distribution

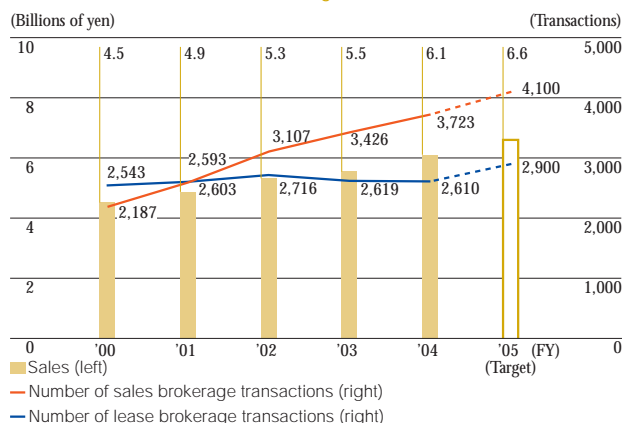
We are focusing our efforts on establishing sales bases in the Tokyo metropolitan area, the nation's largest market, which we consider indispensable to our future business expansion. In fiscal 2005, we plan to establish two new offices in the Tokyo metropolitan area, two in the Kinki area, and one in the Nagoya area. Beyond fiscal 2005, we plan to expand our network by 5-6 offices per year, primarily in the Tokyo metropolitan area.

Through the strengthening of our sales office network, we expect to be better able to provide our regional customers with detailed information. Moreover, we plan to enhance operations that are peripheral to the real estate brokerage business, including specialized consulting service related to legal rights of property owners. By doing so, we intend to provide comprehensive services covering all aspects of real estate business.

Sumitomo Forestry Home Tech: Sales and Orders Received



Sumitomo Forestry Home Service: Sales and Sales and Lease Brokerage Transactions



The Strengths of Sumitomo Forestry's Housing Business

The Sumitomo Forestry Group provides comprehensive timber-related services, from upstream to downstream. The Group's services range all the way from the management of its own forest land which accounts for one thousandth of Japan's total land area, to the manufacture and distribution of timber and building materials both in Japan and overseas, construction and sales of custom-built wooden homes, and the brokering and remodeling of existing homes. The expertise and experience in forest management that we have built up over our 300-year history has enabled us, as an expert in wood, to manifest our strengths in our products and services.

1. Brand Strength

Although we were relatively slow in establishing operations as a homebuilder, we have constantly increased our market share over the past 30 years or so, solidifying the "Sumitomo Forestry's Home" brand. Among the factors supporting this brand strength are (1) our ability as an expert in wood to draw out the faculties of wood and make the best use of materials; (2) our technical expertise, including design capabilities in the area of wooden architecture; and (3) our thorough customer-first policy.

Sources of Brand Strength: Expertise in Wood, Technical Expertise, and Putting the Customer First

(1) Expertise in Wood

The primary source of the brand strength of the Sumitomo Forestry's Home is its identity as a wooden home built by a highly professional company that has deep knowledge of wood.

The benefit of being a homebuilder whose operations encompass everything from growing forests to manufacturing and distributing building materials is that we can bring our comprehensive capabilities to create homes that utilize the positive qualities of wood to the maximum extent possible.

Our procurement capability of materials enables us to develop a variety of unique products with our expertise. Our market share in most categories of directly imported wooden materials is among the highest in the industry, and by utilizing a global procurement network, we are able to provide a wide range of timber and building materials. In general, it is becoming increasingly difficult to procure the kind of high-end materials such as oak, teak, and pine that are used in our premium housing product, the Super Natural series on a steady basis both in terms of quantity and quality. However, our global network and comprehensive capabilities make this sort of stable supply possible. The same is true of domestical-

ly produced materials. We are able to ensure consistent quality for building materials made from domestically grown Japanese cypress for more than 5,000 units annually of our mainstay housing product, the GODAI One's Story II.

In 2003, the Cabinet Office conducted a survey on forests and lifestyles, which found that over 80% of the respondents would rather buy a wooden home than a home constructed from other materials. The preference of Japanese people for wooden homes highlight our presence as an expert on wood.

(2) Technical Expertise

From the vantage materials and functionality as dwellings, our wooden homes are designed according to scientific principles, using experimentation and verification, supported by our technical expertise. The Sumitomo Forestry Group has traditionally hired large numbers of architects, and the parent company today employs over 1,700 certified architects, giving its one of the best architectural forces in the industry. In addition, we conduct various forms of research at our Tsukuba Research Center. For example, we test the earthquake and wind resistance, performance-test building materials, and conduct research on dwelling properties based on the kinetics of the human body.

Of particular note is the strong tendency among first-time homebuyers, who have been increasing in number in recent years, to prefer houses with distinct designs. In a 2003 survey conducted by Recruit Co., Ltd., 66.7% of those responding said that in building a home, they would choose the post-and-beam architectural method, which offers great degree of freedom in design. Sumitomo Forestry has succeeded in tapping a substantial portion of demand by demonstrating designing ability and proposal capabilities, using the post-and-beam architectural method, which offers substantial flexibility, to meet the diverse and sophisticated needs of first-time homebuyers.

(3) Putting the Customer First

After-sales maintenance is one of the biggest factors determining customer satisfaction, and in a customer satisfaction survey conducted by Nikkei Business Publications Inc., Sumitomo Forestry has placed in the top three for after-sales service for the past four years running, taking the number one spot twice. In a first for the industry, in 1999 the Company set up a call center staffed by experienced technicians and operating 24 hours a day, 365 days a year, thus enabling the Company to respond whenever urgent problems occur. In addition, in December 2002 the Company implemented the "Long Support System," in which it provides maintenance checks for 60 years. This stands in contrast with the current industry norm of 20-year guarantees.

Our company-wide efforts to boost customer satisfaction

have proved highly effective. Referrals accounted for nearly 30% of orders in fiscal 2004, up from 24% four years ago.

We will continue working to increase customer satisfaction by enhancing after-sales service and other efforts, with the goal of increasing the number of home reconstruction and new construction projects received on referral.

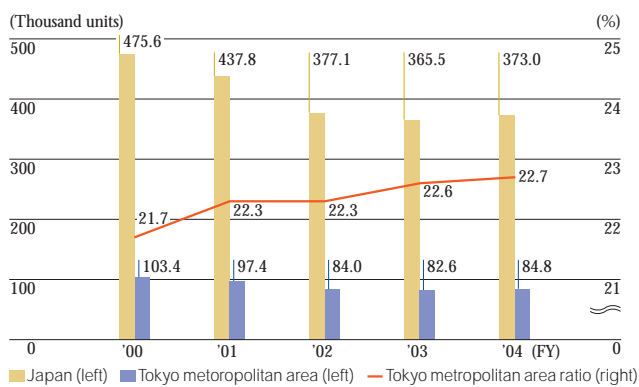
2. Strength in Urban Markets

Amid stagnant growth in owner-occupied housing starts nationwide, demand in the Tokyo metropolitan area is relatively strong, and since 1995, the ratio of owner-occupied housing starts in the Tokyo metropolitan area to those nationwide has increased steadily. By leveraging the strength of our operations in urban areas, we have maintained our ratio of detached house orders in the Tokyo metropolitan area (Tokyo, Kanagawa, Saitama, and Chiba) to total orders at consistently around 30% over the past five years.

Sumitomo Forestry's post-and-beam architectural method, which enables freedom in planning down to units of several millimeters, is a particularly significant strength in urban areas. This enables us to clear the various restrictions imposed by the kind of narrow, irregular plots of land that are common in urban areas and make maximum use of open space. It also makes possible construction work in areas where roads are narrow. Moreover, this method makes it possible to adjust window height and canopy length to take advantage of natural light, determine floor plans to meet the size of furniture, and freely change the positions of electric outlets and fixtures.

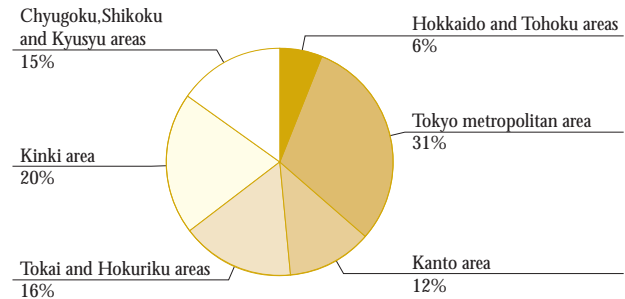
In fiscal 2005 we will enhance our strategy for Tokyo, the nation's largest market, and we will subsequently take similar steps in other urban areas. We will conduct more finely segmented area marketing and will formulate finely detailed marketing strategies for each of these areas. Sumitomo Forestry currently has the third-largest share of housing starts

Owner-Occupied Housing Starts, Nationwide and Tokyo Metropolitan Area, and Tokyo Metropolitan Area Ratio



Note: Tokyo metropolitan area consists of Tokyo, Kanagawa, Saitama, and Chiba.

Composition of Order Value for Custom-Built Detached House, by Region (For the year ended March 2004)



in Tokyo, and through these efforts we aim to capture the number one spot.

3. Marketing Strength

As a means of bolstering our customer-drawing power, we have held a large-scale housing fairs, known as "Sumai Haku" over the past six years. The scale of these events has increased each year, and in fiscal 2004 we held Sumai Haku housing fairs in 10 locations nationwide with the total number of attendees reaching 21,068. Moreover, the ratio of applications to the number of attendees was 4.9%, demonstrating superior cost performance. This sort of large-scale customer-drawing event allows potential customers to become more familiar with wood, and we are confident that our competitors cannot imitate such events. (For more details on Sumai Haku housing fairs, please refer to p 23).

Going forward, we will attempt to maximize the efficiency of marketing spending by conducting effective events.

At the same time, we will increase advertising and promotion spending, as well as the number of marketing personnel, with the goal of further enhancing our marketing capabilities.

Number of Marketing Personnel, Sales Offices, and Model Home Display Venues

(FY)	2003	2004	2005 Projected
Marketing personnel (persons)	1473	1483	1517
Sales office	98	94	96
Model home display venue	305	308	315