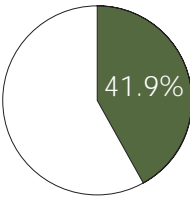
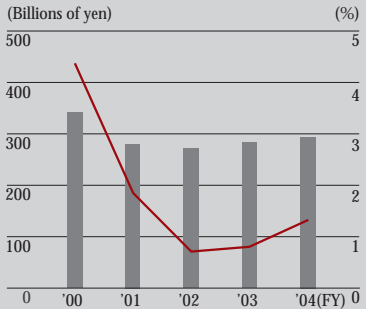
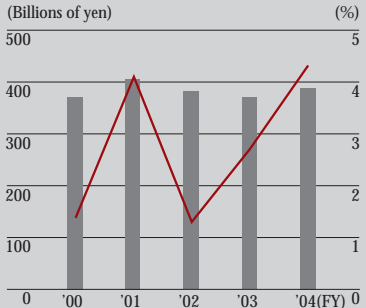
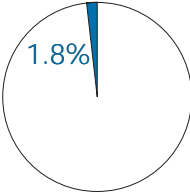
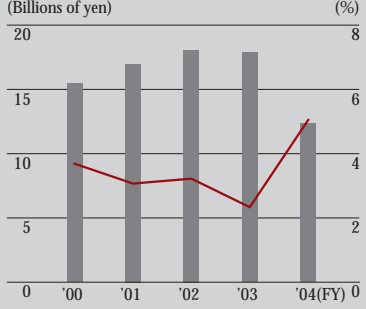


Sumitomo Forestry at a Glance

The Sumitomo Forestry Group comprises Sumitomo Forestry Co., Ltd., 55 subsidiaries, and three affiliates. With roots in forestry management, the Group stocks, manufactures, processes, and sells timber and building materials. It is also a contractor for custom-built homes and other structures, providing design, construction, supervision, and other related services.

Business segment (Consolidated)	Sales, operating income, operating income ratio (Consolidated)	Main products and services
Timber and Building Materials		
<p>Sales ratio: </p> <p>Employees: 3,560 Domestic Distribution Bases: 8 branches 8 sales offices Overseas Distribution Bases: 12 Domestic Subsidiaries: 6 Overseas Subsidiaries & Affiliates: 12</p> <p>Note: Three overseas subsidiaries double as distribution bases.</p>	<p>(Billions of yen) (%)</p>  <p>Note: Starting in fiscal 2001, the profits from transactions in housing materials has been included in the Housing and Housing-Related segment; it was previously included in the Timber and Building Materials segment.</p>	<p>(Forestry and Environmental Operations) Planting, growing and harvesting of Japanese cedar, Japanese cypress, Japanese larch, and other tree species, forestry management operations</p> <p>(Timber) Domestic and international purchasing and sales of log and timber, wood chips, wood pulp, pre-cut timber, laminated wood, etc.</p> <p>(Building Materials) Domestic and international purchasing, manufacturing, processing, and sales of building materials, including processed wood building materials, ceramic building materials, metal building materials, housing equipment, plywood, fiberboard, etc.</p>
Housing and Housing-Related Businesses		
<p>Sales ratio: </p> <p>Employees: 6,456 Sales Bases: 94 Model Home Display Venue: 308 Subsidiaries & Affiliates: 34</p>	<p>(Billions of yen) (%)</p>  <p>Note: Starting in fiscal 2001, the profits from transactions in housing materials has been included in the Housing and Housing-Related segment; it was previously included in the Timber and Building Materials segment.</p>	<p>(New House Construction) Contracting, design, construction, and supervision of post-and-beam houses, two-by-four houses, wood unit houses and collective housing; construction and sales of homes for sale; land survey services; foundation improvement works; interior product sales;</p> <p>(Housing Stock) House and condominium remodeling; after-sales maintenance; real estate sales, leasing, and brokerage services</p> <p>(Greenery Business) Contract landscaping and greening services and related design, construction, supervision, and general services</p>
Other		
<p>Sales ratio: </p> <p>Employees: 247 Subsidiaries: 6</p>	<p>(Billions of yen) (%)</p>  <p>Note: Starting in fiscal 2004, the sales and profits of Sumitomo Forestry Home Service Co., Ltd. have been included in the Housing and Housing-Related Businesses segment; it was previously included in the Other segment.</p>	<p>Management and leasing of company-owned assets; development and sales of software; manufacture and sales of soil improvement materials and gardening products; worker dispatching services; leasing; warehousing; and golf course management</p>

* Number of headquarters employees: 155

■ Sales and contract revenues (left) — Operating income margin (right)

Review of Operations: Timber and Building Materials

- We established a new Business Management Division and formulated a market strategy to keep pace with changes in the market.
- We will work to open up previously untapped markets by forming capital and business alliances.

Timber and Building Materials Market Conditions

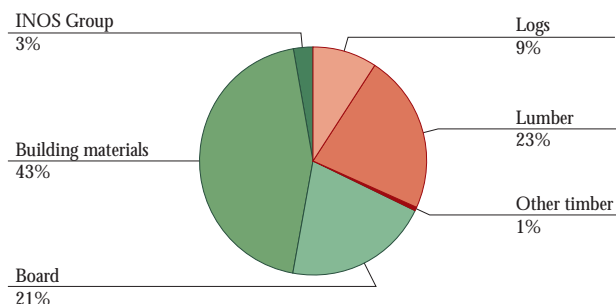
Although the overall log market is shrinking, the lumber product market showed signs of rebounding. As a result, commodity indices for both domestically produced and imported materials stopped falling after having trended steadily downward over the several preceding years. In contrast, demand for building materials, particularly housing equipment, was robust thanks to growth in the remodeling segment and an increase in built-for-sale housing construction starts, particularly in the Tokyo metropolitan area.

The timber and building materials industry is starting to undergo a transformation. With the emergence of large-scale pre-cut lumber mills and “mega-wholesalers,” a shift is taking place in distribution from the conventional multi-layered system to a system characterized by shorter distribution routes and borderless product distribution.

Fiscal 2004 Policies and Results

With demand for engineered wood growing, we have been putting energy into manufacturing (both in Japan and overseas) a variety of housing-use building materials and

Breakdown of Timber and Building Materials Sales by Product Category (Non-consolidated)



wood-based panels. Thus, despite the unfavorable conditions in the timber and building materials industry, demand for our building materials is strong. In fiscal 2004, the Timber and Building Materials segment’s consolidated sales rose 3.4% over the previous fiscal year to ¥293,220 million (with external sales rising 4.1% to ¥277,033 million), and operating income increased 70.3% to ¥3,812 million. By product line, sales of (logs, lumber and other timber) fell 1.2% year on year to ¥82,897 million on a non-consolidated basis, but thanks to a strong showing by general-purpose building materials and wood-based panels, sales of building materials rose 3.3% to ¥174,700 million.

In the timber and building materials distribution business, we continued efforts to increase our competitiveness and profitability, with the goal of further enhancing our business base. By purchasing materials based on actual demand, we have minimized inventory risk. At the same



A MDF manufacturing company, Nelson Pine Industries Limited in New Zealand



Alpine MDF Industries Pty Ltd., Australia



Sumitomo Forestry Crest Co., Ltd.

time, we enhanced our credit management capabilities by establishing a new Credit Administrative Division. In addition, in building materials distribution, together with con-

fiberboard (MDF) manufacturing and sales business, we established a four-line production system through Nelson Pine Industries Ltd. (NPIL) in New Zealand and Alpine MDF Industries Pty Ltd. in

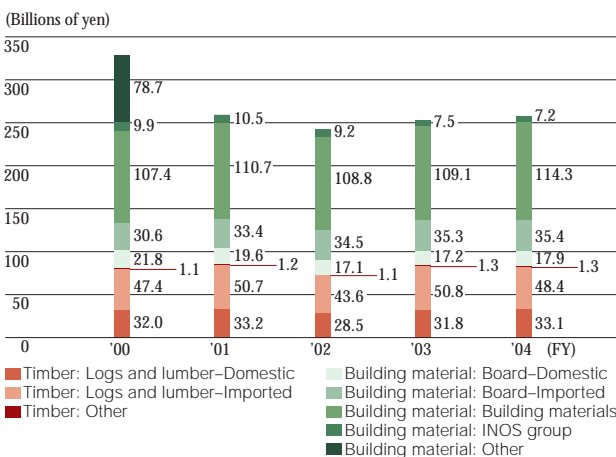
Australia. However, earnings stagnated as a result of a worsening market position in Japan and Asia as well as a negative foreign exchange impact. In Indonesia, P. T. Kutai Timber Indonesia (KTI), which manufactures and sells plywood and other wood building

ducting community-based marketing, we worked to create a solid business structure by more actively pursuing alliances with other companies.

In the domestic building materials manufacturing business, Sumitomo Forestry Crest Co., Ltd. achieved a substantial increase in profit by thoroughly reducing manufacturing costs and operating expenses. In the medium-density

materials, struggled due to a rise in production costs stemming from the appreciation of the local currency. However, P. T. Rimba Partikel Indonesia (RPI), which manufactures particleboard, recorded a major increase in profits. RPI worked to minimize production costs, resulting in an increase in the gross profit margin to 31.7% from 18.5% in the previous fiscal year.

Timber and Building Materials Sales by Product Category (Non-consolidated)



Note: Sales associated with building materials for Sumitomo Forestry's Home were included in "Building material: Other" before fiscal 2000.

Timber and Building Materials Distribution

We are actively trying to open up new markets by handling high value-added products, and to pursue a capital allocation strategy aimed at dealing with the structural changes in the industry brought about by a weeding-out of weaker players. In doing so, we have been successful in maintaining a high market share in individual product categories.

INOS Group

Based on our support, the INOS Group promotes next-generation housing construction in a way deeply rooted in local communities with the participation of strong local construction companies and builders throughout Japan. Sumitomo Forestry supports member companies by providing design software, the latest architectural technologies,



Japanese cypress posts for Sumitomo Forestry's Home



A house constructed by the INOS Group

and other support tools, while making profits for itself by selling building materials. It also offers its know-how in the area of marketing methods, ranging from customer consultation to design, construction, and after-sales service. By so doing, we aim to grow in tandem with regional construction companies and builders.

Fiscal 2004 marked the 11th year of the INOS Group business. It has 310 member companies, with a cumulative supply of 15,766 houses. In fiscal 2003, the Group revised its member system (including the setting of member fees). As a result, the number of houses constructed by INOS members decreased 37.0% against fiscal 2002, to 1,267 units, with sales decreasing 22.0% to ¥7,160 million. However, because only highly motivated members remained after the revision of the system, the gross profit margin improved from 13.4% to 15.1%.

Building Materials Manufacturing

In 2001, four domestic building materials manufacturers of the Sumitomo Forestry Group merged to form Sumitomo Forestry Crest. The resulting merger effects have helped increase profitability.

Sumitomo Forestry Crest manufactures plywood, processed wood building materials, housing equipment, and ceramic building materials, among others. Although its business had been suffering from stagnant housing-related demand, the company enhanced its competitiveness as well as financial stability by maximizing cost reductions, developing new products, and enhancing its delivery functions. In fiscal 2004, Sumitomo Forestry Crest's earnings recovered rapidly as a result of these efforts and the enhanced market competitiveness as well as the pick-up in the housing market.

Strategy for Fiscal 2005 and Beyond

The Japanese timber and building materials industry is



undergoing realignment and the competition for survival among companies is heating up. Recognizing this situation as an opportunity, we established a new Sales Promotion Division within the Marketing Headquarters in April 2004, laying out the framework to develop strategies for responding to the major changes in the market. In fiscal 2005, we will work to enhance our capital and business alliances, and will expand the scope of our operations by entering untapped markets through M&A activities.

Review of Operations: Housing and Housing-Related Businesses

- We continue to enhance our product development and market strategy in the detached housing business, where we show competitive advantages.
- We place priority on developing the collective housing and the housing stock businesses, which have the potential to become earnings drivers.
- We will concentrate management resources in urban areas, with the aim of regaining the top spot in the Tokyo metropolitan market.



GODAI One's Story II: Sumitomo Forestry's Home's mainstay

Housing Market Conditions

New housing starts in Japan have been in a long-term decline that began in 1997, following a spike in demand ahead of a hike in the consumption tax. Housing starts declined year on year for three consecutive years through fiscal 2003, rising for the first time in four years in fiscal 2004. This was considered mainly attributable to two factors: First, a bottoming trend in land prices was seen, particularly in urban areas. Second, a large proportion of children of baby boom are now around the age of 30, when people typically become first-time homebuyers, and the desire to purchase a home among this group is growing. Also, housing starts were stimulated by the partial signs of economic recovery and the looming expiration of tax breaks for housing loans. Housing starts were particularly strong in the Tokyo metropolitan area, including starts of owner-occupied houses,

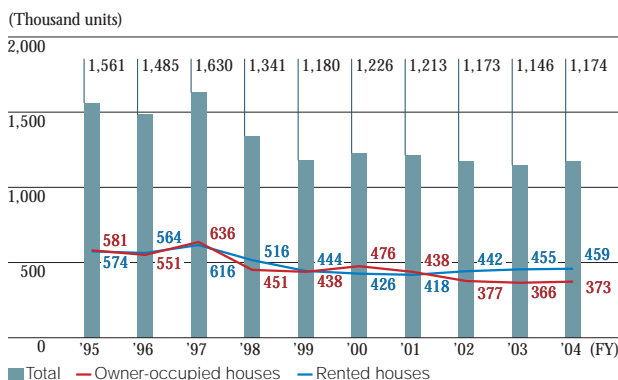
rented houses, and built-for-sale houses.

The collective housing market continues to grow, spurred by increased renting of collective housing units in urban areas as well as a rebound in the number of people choosing to live in city centers. In the housing stock business, demand for home reconstruction is being supplanted in part by demand for home remodeling, stemming from the increased durability of housing as well as economic stagnation.

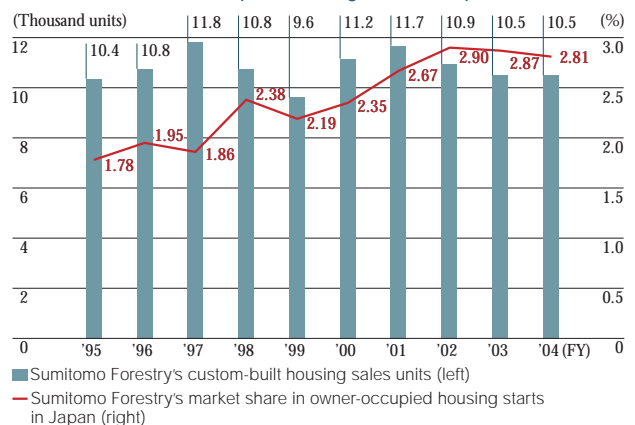
Fiscal 2004 Policies and Results

In fiscal 2004, the Housing and Housing-Related segment recorded a 6.4% increase in sales to ¥393,507 million, and a 72.9% rise in operating income to ¥17,149 million. Among others, we strengthened our customer-first management policy by, for example, introducing the Long Support System, which offers support to the customer for 60 years from purchase. In addition, we placed special emphasis on increasing profitability through such efforts as reducing group-wide housing production costs and the parent company's selling, general and administrative (SG&A) expenses. Moreover, through an organizational reform implemented in April 2003, we concentrated strategic functions in our company

Nationwide New Housing Starts, Owner-Occupied Houses Starts and Rented Houses Starts



Sumitomo Forestry's Custom-Built Detached Housing Sales Units and Share in Owner-Occupied Housing Starts in Japan



Major Product Lineup of Detached Houses (Sumitomo Forestry)

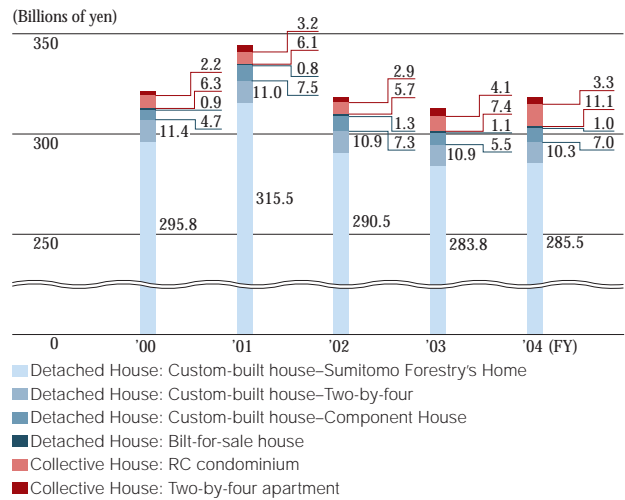
Product Series Name	Features
GODAI	Custom-built house targeted at mid- to high-end customers. Sumitomo Forestry's Home's mainstay. Structural material: Japanese cypress. WARAKU is a Japanese style GODAI house that conveys the beauty of Japanese tradition.
rialt	Custom-built house targeted at young first home buyers. Functionality-focused, stylish and modern design, and superior cost performance. Structural material: Imported European timbers
Proudio	Custom-built, three-storied house suitable for urban areas, which have many small plots of land, or for duplex families. Allows greater degree of freedom for space and design.
Baum	Preplanned product with 300 options varied in design, floor plan, and shape of built-over lot. Allows customer to reduce construction cost.

headquarters, thereby enabling the headquarters to respond quickly and flexibly to changes in conditions on-site.

In the detached housing business, sales rose 0.8% year on year to ¥303,752 million, essentially unchanged from the preceding year. Our custom-built detached houses sold totaled was 10,496 units in fiscal 2004 on a non-consolidated basis, with a market share of 2.81%. Particularly for owner-occupied wooden houses, our market share was 3.32%.

In custom-built, post-and-beam wooden homes, we enhanced our product lineup by upgrading existing products and launching Light Life series, which combines commercial and residential uses, and Relaxia, a new style of housing that is simple and modern in style. In wood houses built with the two-by-four method, orders and completions declined year-

Changes in Composition of Sales by Housing Type



over-year, as we were unable to alter our model homes in a timely fashion to reflect a shift in our main target to mid- and high-end customers. On the other hand, orders for prefabricated wood-frame houses increased as we enhanced the ancillary aspects of the products, such as their layouts and fixtures, and put energy into developing technologies such as insulation methods and thermal storage for under-floor heating.



Japanese-style room in Sumitomo Forestry's custom-built house, transmitting a tradition to posterity



Modern-looking interior popular among younger generations

In the collective housing business, we acquired 63% of the outstanding shares of Sun Step Co., Ltd., a company that manages roughly 20,000 rental housing units in the three major urban areas. This enabled us to offer integrated services ranging from contracting to rental management and yielded synergies in product development. We have also enhanced our marketing capabilities. As a result, the value of new construction orders jumped 40.9% to ¥17,182 million, and sales rose 25.0% to ¥14,432 million.

In the housing stock business, overall sales totaled ¥27,100 million. Recurring profit amounted to ¥794 million at Sumitomo Forestry Home Tech. Co., Ltd., which carries out the Group's home remodeling operations, and ¥258 million at Sumitomo Forestry Home Service Co., Ltd., which is involved in real estate transaction business. Combined recurring income at these two companies rose by roughly ¥500 million. In the home remodeling business, we acted ahead of the competition to introduce guarantees lasting 10 years after occupancy as well as a service offering up to four after-sales maintenance visits free of charge. In the real estate brokerage business, Sumitomo Forestry Home Service moved its headquarters from Osaka to Tokyo to reinforce its marketing capabilities in the Tokyo metropolitan area.

Strategy for Fiscal 2005 and Beyond

Although we have the industry's top share of custom-built, post-and-beam wooden houses, our collective housing business and housing stock business, which we view as future core operations, are still in a growth stage. In addition to augmenting our product development and market strategy in detached housing, we intend to invest management resources on a priority basis in the collective housing and housing stock businesses.

Detached Housing

For fiscal 2005, we aim to achieve full-term orders of 10,100 units. In addition, we aim to attain the top share of owner-occupied detached houses in Tokyo, in which we have been No. 3 in the industry in recent years.

To this end, we will work to carry out an agile and well-balanced product strategy. Building on the efforts made in fiscal 2004, we will work to solidify our brand image among mid- and high-end customers. At the same time, by closely monitoring market trends we will work to launch new products in a timely manner in accordance with cus-



RC rental condominiums in collective housing business

tomers demographics and geographical areas.

In products for home rebuilding, including our mainstay GODAI series, we will enhance the degree of freedom in the design process, the options we can offer in terms of the type of wood used as interior materials, and the effective use of interior space. In addition, we have developed measures to deal with the increase in the number of first-time homebuyers. The new home construction ratio has increased by approximately 9 percentage points compared to five years ago, to 61%. First, we have adopted a product strategy of offering houses with the kind of simple, modern designs and high-level functionality that the younger generation demands. Second, we continue to reinforce support for young homebuyers through the Tochi Kara Support System, which offers support throughout the homebuilding process from the search for the right plot of land while enhancing our recommendation capabilities.

Collective Housing

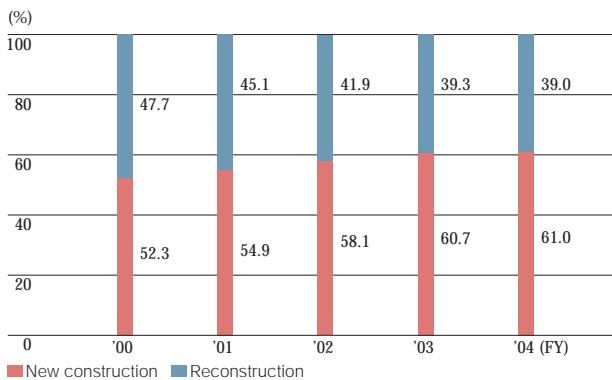
In the collective housing business, our goals are to achieve sales of ¥55.0 billion, recurring income of ¥1.5 billion, and sales volume of over 3,000 units within three years through fiscal 2007.

We plan to increase the number of collective housing sales bases across the country from four at present to around ten, and to boost headcount substantially.

Housing Stock

In fiscal 2005, we do not expect profitability in our hous-

New Construction Ratio vs. Reconstruction Ratio
(Non-Consolidated, Unit Basis)



ing stock business to increase substantially, as we will make strategic investments involving increasing personnel, boosting advertising and promotion spending, and expanding the network of sales offices. However, by fiscal 2007 we aim for sales of ¥55.0 billion and recurring income of ¥2.5 billion.

An IT Strategy Aimed at Increasing Customer Satisfaction and Lowering Production Costs and SG&A Expenses

We have introduced the Customer Relationship Online Support System (CROSS), enabling end-to-end management of customer data from approaches to potential customer to after-sales maintenance. In addition, our call center is operated 24 hours a day by engineers, allowing us to respond quickly to emergencies.

In construction process management, we are working to streamline production by managing the homebuilding process on a day-to-day basis through the use of the Network Aided Construction Support System (NACSS). NACSS and rationalized construction methods have allowed us to shorten construction time and lower construction costs, and in fiscal 2004 the average construction time per unit shrank to 102 days, from 112 days prior to NACSS introduction in fiscal 2001. We aim to further reduce the time required for to 95 days.

In addition, we have introduced an electronic data interchange (EDI) system, Rakutto, as a means of computerizing orders and bills received from and sent to contractors, enabling more efficient, faster, and lower-cost administrative operations. We are the first company in the Japanese housing industry to adopt such a system. We introduced our EDI system on a full scale in January 2004, linking ourselves with 1,000 contractors' offices. We plan to



"Sumai Haku" housing fair

expand this network to 1,500 offices by fiscal 2007.

Sumai Haku Housing Fairs

Although model home display venues are still the most important contact point with customers, we are also diversifying our channels for attracting customers and making sales promotion. For example, we approach potential customers through the Internet and offer events for drawing customers such as tours of houses we have constructed.

One of these new channels is the "Sumai Haku" housing fair, which we have held on an annual basis in the major cities of Japan for the past six years. At these fairs, we display, all in one location, our housing materials, interiors, and actual construction frames, allowing attendees to get a real sense of what our homes are like. The event lets attendees examine the wood we actually use in our products and experience directly what living in a Sumitomo Forestry's Home is like. In addition to exhibiting a real frame of a two-story dwelling, we display models of earthquake resistance and heat insulation, the latest materials, and security equipment. In fiscal 2004, we held Sumai Haku housing fairs in ten locations nationwide, primarily in the three major urban areas. As a result, the total number of attendees rose from 13,927 in fiscal 2003 to 21,068 in fiscal 2004, and the ratio of applications to attendees increased from 3.0% in the previous fiscal year to 4.9%.



Review of Operations: **Other**

The Sumitomo Forestry Group also provides support for people to enjoy a comfortable and affluent lifestyle, as well as for the communities in which they live. For example, through its agribusiness, the Group offers products related to people's daily lives, effectively utilizing byproducts from our main business activities. It also contributes to society by providing a number of services required in business today, such as general insurance agency operations, computer system development, and worker dispatching services.

Fiscal 2004 Policies and Results

Sales in the Other segment for the year under review decreased 64.6% year on year, to ¥3,238 million, while operating income increased 54.9%, to ¥644 million. The main reason sales dropped sharply was that, in accordance with the acquisition of Sun Step Co., Ltd., the real estate brokerage operations of Sumitomo Forestry Home Service Co., Ltd. were transferred from the Other segment to the Housing and Housing-Related segment. However, at Sumirin Enterprises, Ltd., which conducts insurance and leasing operations, sales of fire insurance to Sumitomo Forestry's housing customers rose substantially, and there was improvement in the earnings structure of Sumirin Agro-Products Co., Ltd., which manufactures and sells horticultural-use potting soil and various flowers and ornamen-

tal plants. As a result, the segment's operating income improved markedly.



Tomatoes grown in Tsuchi Taro

Lifestyle-Related Businesses

Sumirin Agro-Products manufactures and sells Tsuchi Taro, a potting compost made by mixing together, maturing, and cultivating sediment discharged from water purification plants with compost made from bark eliminated at the time of lumber sawing. Carried out jointly with local governments, these operations help in the recycling of sediment.

Sumitomo Forestry Information Systems Co., Ltd., which plans and develops computer systems and provides operational support for the Group, developed such systems as CROSS, NACSS, and Rakutto (EDI system) that are helping to improve the profitability of our housing operations. Sumitomo Forestry Information Systems also constantly monitors our intranet, the Internet, and the IT

equipment that connects the several hundred business bases of the Sumitomo Forestry Group.

Our Corporate Social Responsibility Efforts

With a history of over 300 years in forest management as the base of our corporate activities, we inherently feel a strong concern about the preservation of natural environment. Consequently, proactive environmental conservation has always been a major issue in our business activities. In addition, as a member of society, we are aware of the importance of our corporate responsibility in light of our interactions with society. Through both our business and volunteer activities, we are making every effort to further contribute to protecting the global environment and creating a sustainable society.

Environmentally Sound Operations

Environmental Management System

We formulated an Environmental Philosophy in 1994 and Environmental Guidelines in 1995, and have created and implemented an Environmental Management System (EMS). In addition, we have adopted the ISO 14001 standards for our EMS. In 2001, all of our divisions and departments completed acquisition of ISO 14001 environmental management certification, which was the first in the industry, and in 2002 upgraded the divisional certifications to a general certification for the whole Company. For the entire Group, we formulated a unified Environmental Policy in



Weeping cherry tree at Daigoji Temple, Kyoto

2000 and our subsidiaries affiliates are currently mounting efforts to obtain ISO14001 certification.

Environmental Accounting

To promote even greater efficiency and effectiveness in the environmental conservation activities that are part of our business management activities, we are working to accurately grasp, in a quantitative manner, the costs associated with environmental protection and their effects. In fiscal 2004, costs related to business activities rose by ¥385 million year on year mainly due to an increase in industrial waste management costs, while other costs declined.

Fiscal 2004 Environmental Costs and Effects

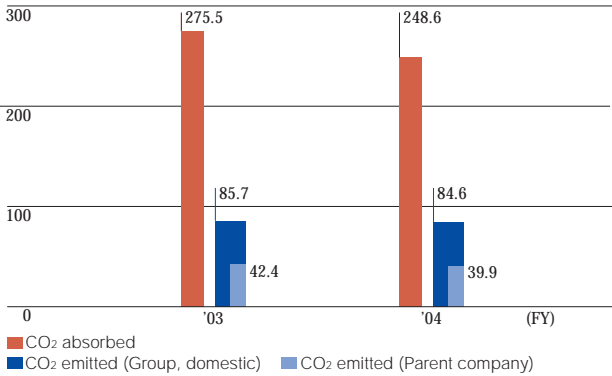
Category	Costs (Millions of yen)		Effects
		YoY	
Business area	4,433	+385	Group-owned forests absorb 248,639 t-CO ₂ per year, etc.
Management activity	102	-76	Volume of copy paper used lowered 5.1% from 2002 at Tokyo headquarters.
Research and development	305	-122	—
Social contribution	95	-42	Reforestation volunteer activities four times a year at Mt. Fuji Manabi no Mori, etc.
Total	4,935	+145	



For further details regarding Sumitomo Forestry's corporate social responsibility efforts, please refer to Environmental and Social Report 2004.



Volume of CO₂ Uptake by Group-Owned Forests and CO₂ Emissions by Our Domestic Business Activities (Thousands t-CO₂)



Measures to Mitigate Global Warming

At Sumitomo Forestry, we are striving to accurately grasp the state of CO₂, (a greenhouse gas) associated with our business activities in order to control emissions of CO₂ and to reduce the burden that our business activities places on the environment. Total Group CO₂ emissions in fiscal 2004 amounted to 84,600 t-CO₂, of which housing production and construction operations generated 42,775 t-CO₂ and components and materials manufacturing and processing operations generated 30,888 t-CO₂. On the other hand, Group-owned forests in Japan absorbed 248,639 t-CO₂ in fiscal 2004, equivalent to around 2.9 times the volume of CO₂ emitted by our domestic business operations.

Note: We have calculated the emission volume from housing construction based on the methods used by the government and industry associations. For the other business segments, which include distribution and management, we have based our calculations on the guidelines issued by the Environment Agency (predecessor of Ministry of the Environment) in 1999.

Sustainable Forestry Management

We are practicing sustainable forestry management for all Group-owned forests. In Japan we hold 40,497 hectares forests covering one thousandth of the nation's total land

area and maintain these forests in perpetuity through selective cutting and thinning. We are striving to balance protecting the natural environment with our timber operations by keeping annual yield volume below the volume of annual growth.



Tropical Rain Forest Regeneration Project, Indonesia

Turning to the area of research and development, in 1998 we succeeded in establishing a tree tissue culture technique that will enable the mass propagation of a valuable timber species in tropical rain forests, which we have utilized in our tropical rain forest regeneration operations. In addition, by applying this world-first biotechnology, we have succeeded in growing a seedling cloned from "Togyu-no-Sakura," a famous weeping cherry blossom tree located on the grounds of Daigoji Temple in Kyoto. That is estimated to be 150 years old, and has significant historical and cultural value, and its preservation has been widely desired. The new tree grown from the cloned seedling blossomed in March 2004. As trees age, it becomes harder and harder to breed them using conventional techniques such as taking cuttings and grafting. For that reason, the development of a clone propagation method using biotechnology has been long desired. Through the application of this technology, we intend to play a role in preserving priceless weeping cherry specimens in various regions and other endangered tree species.

Overseas Afforestation Operations

Sumitomo Forestry has been consigned by the Japanese Ministry of the Environment to conduct feasibility studies on clean development mechanisms (CDM) in developing countries. In Indonesia, we conducted planned industrial afforestations in selected areas where woodlands had been degraded, and together with the local residents, we conducted a joint afforestation project centering on agro-forestry. Over the past five years, we have surveyed the impact of these efforts on the surrounding environment, the amount of CO₂ that can be sequestered, and their profitability and commercial feasibility. As a result, we have succeeded in confirming the viability of CDM projects.

As part of a grant aid under the Overseas Development



Volunteer reforestation activity in Mt. Fuji Manabi no Mori



Students who received scholarships from KTI Educational Foundation

Aid (ODA) program, we began an afforestation project in Way Kambas National Park, Sumatra, Indonesia in November 2000 to rehabilitate the land devastated by forest fire. The project, which involved planting 613,000 trees on 360 hectares of land, has been completed, and the rehabilitated land has been transferred to the Indonesian government in March 2004.

Social Contribution Activities

Indonesia: Tropical Rain Forest Regeneration Project

In 1991, Sumitomo Forestry launched a Tropical Rain Forest Regeneration Project in Sebulu, East Kalimantan, Indonesia. After 13 years, this project successfully ended in fiscal 2004. The goal of the project was to restore a tropical forest to a site that had been devastated by slash-and-burn farming and forest fires, and involved planting trees, mainly of the indigenous Dipterocarp family, on a total of 503 hectares of land. The approach taken in this project has been taken up as a case study in the Global Environmental Issues Programs operated by the World Bank, the former Environment Agency and the Development Bank of Japan. It has also been cited in a high school textbook that has been approved for use by the Ministry of Education, Culture, Sports, Science and Technology.

Mt. Fuji: Manabi no Mori Project

Manabi no Mori is a volunteer afforestation project that was started to restore the natural environment of an area in the southern foothills of Mt. Fuji that was severely damaged by a September 1996 typhoon. Through the cooperative efforts of a number of volunteers from both inside and outside the Company, the project has

engaged in planting hardwood trees indigenous to the Mt. Fuji region and pruning Japanese cypress. Through November 9, 2003, Manabi no Mori volunteer activities had been conducted 21 times, drawing a total of 4,513 volunteers and resulting in the planting of 33,295 trees.

Activities at Our Indonesian Building Materials Companies

P.T. Kutai Timber Indonesia (KTI) and P.T. Rimba Partikel Indonesia (RPI), our Indonesian wood building materials manufacturing companies, are engaging in the planting of fast-growing trees in cooperation with the local residents, with the goal of protecting the environment and securing a stable source of raw materials. Aiming to be a company that both coexists with and contributes to Indonesian society, KTI also established the KTI Educational Foundation in 2000 to provide educational support. Since 2001, the KTI Educational Foundation has provided scholarships to children of impoverished families, and in the three years through 2003 had enabled 70 children to attend school. The foundation also helps to upgrade educational facilities. We hope to continue contributing to



the local society through the ongoing activities of the foundation.

Corporate Governance and Compliance

To ensure management transparency and enable quick decision-making and business execution, we at the Sumitomo Forestry Group have made enhancing and strengthening corporate governance one of our top priorities and are taking aggressive steps in this area.

Our Corporate Governance Efforts

In June 2002, we introduced an executive officer system. By separating decision-making and supervisory functions from business execution functions, we are implementing a management style that emphasizes speed and transparency. At the same time, we are strengthening supervisory functions related to daily business execution and working to clarify responsibility for business execution. In addition, we are reforming our management committee structure and are endeavoring to increase the speed and agility of decision-making to address the rapidly changing management environment.

Board of Directors and Management Committee

The Board of Directors plays a key role in the supervision of business execution, meeting once a month in principle. The Board makes decisions regarding important management matters and carries out supervisory functions on business execution. The Management Committee, which is composed of directors and an auditor, also meets once a month in principle and determines the direction of the Company's business strategy. All executive officers attend Executive Officer Committee meetings and each report to the president on the status of operations. This committee also meets once a month in principle.

Auditing System

By adopting an auditing system and assigning auditors supervisory functions over management, we are working to establish a system capable of responding quickly to changes in the management environment. To contribute to healthy and sustainable management of the Company, our four auditors, including two outside auditors, attend the Board of Directors and the Management Committee meetings. The auditors also hold a meeting once a month to exchange views with the representative directors regarding audit results.

Compliance System

In September 1997, the Company established the Sumitomo Forestry Ethical Charter and started managing with an emphasis on compliance. In December 2002, the Company set up a Compliance Counter as a forum for consulting with the General Manager of General Administrative Division and company lawyers, and established a mechanism for allowing all Group employees to directly provide information on illegal acts or inappropriate actions that go against corporate ethics, while still maintaining their privacy. As an internal control system, the Audit Division conducts internal audits of the entire Group regarding the appropriateness of ordinary business affairs.

In the area of risk management, in May 2002 the Company established a Risk Management Committee covering the entire Sumitomo Forestry Group. In addition, the Company has set up a dedicated Emergency Hotline for all Group employees, to enable them to act quickly and appropriately in emergency situations. Also, we have created a system for securely conveying information to the Risk Management Committee at any time, even on weekends and at night. Also, we have set a "two-hour rule," meaning that the committee must report to the president within two hours when an emergency situation arises. Thus, we have created a risk management system under which the top management takes the initiative in the efforts to effectively manage risks.

Overseas Network

Overseas Offices and Subsidiaries

1. Seattle Office/Sumitomo Forestry, Inc.

11235 SE 6th Street, Suite 120
Bellevue Washington 98004, U.S.A.
Tel : 1-425-454-2355
Fax: 1-425-454-1106
E-mail: sfs@sumiforsea.com

2. Vancouver Office

460, 1140 West Pender Street,
Vancouver, British Columbia,
Canada, V6E 4G1
Tel : 1-604-681-8184
Fax: 1-604-681-6568
E-mail: sfc1@sfcvcr.com

3. Amsterdam Office

Rivierstaete Building, 3rd Floor
No. 22, Amsteldijk 166 1079LH,
Amsterdam, The Netherlands
Tel : 31-20-646-4140
Fax: 31-20-646-5372
E-mail: sfc3@smtforams.nl

4. Jakarta Office

Summitmas II, 8th Floor, JL. Jend.
Sudirman Kav. 61-62, Jakarta 12190,
Indonesia
Tel : 62-21-5200268
Fax: 62-21-5202069
E-mail: sfcjkt@cbn.net.id

5. Singapore Office/Sumitomo Forestry (Singapore) Ltd.

6 Raffles Quay #14-04/05,
John Hancock Tower,
Singapore 048580
Tel : 65-6435-0150
Fax: 65-6435-0151
E-mail: adm@sfspsore.com.sg

6. Khabarovsk Office

"PARUS HOTEL" 208, 5,
Shevchenko Street, Khabarovsk
680000, Russia
Tel : 7-4212-32-68-58
Fax: 7-4212-32-83-61
E-mail: sfc@inter.global-one.ru

7. Dalian Office

Senmao Building, 11th Floor,
147 Zhongshan Road,
Xigang District, Dalian, 116011, PRC
Tel : 86-411-8367-8060
Fax: 86-411-8367-8061
E-mail: dalian@sfc-cn.com

8. Tawau Office

P. O. Box 946, 91008, Tawau, Sabah,
Malaysia
Tel : 60-89-772979
Fax: 60-89-761060

9. Kota Kinabalu Office

Lot 1-5-E4, 5th Floor,
Centre Point Sabah, No. 1,
Jalan Centre Point, 88000,
Kota Kinabalu, Sabah, Malaysia
Tel : 60-88-242031
Fax: 60-88-268031
E-mail: sfcwtu@tm.net.my

10. Miri Office

P. O. Box. 493, 98007, Lot 231
No.15, Hokkien Road, Miri, Sarawak,
Malaysia
Tel : 60-85-413459
Fax: 60-85-413598
E-mail: sfcmiri@tm.net.my

11. Sibul Office

P. O. Box. 1563, 96008, No. 11,
2nd Floor, Lane 1, Jalan Rakyat, Sibul,
Sarawak, Malaysia
Tel : 60-84-312777
Fax: 60-84-317635

12. Auckland office/Sumitomo Forestry NZ Ltd.

P. O. Box. 91219, Auckland Mail
Centre, Level 11, Westpac Tower,
120 Albert Street, Auckland,
New Zealand
Tel : 64-9-309-0012
Fax: 64-9-309-0014
E-mail: sfnz@xtra.co.nz/
sumitomo@xtra.co.nz

13. Nelson Pine Industries Limited

P. O. Box. 3049, Lower Queen Street,
Richmond, Nelson, New Zealand
Tel : 64-3543-8800
Fax: 64-3543-8890
E-mail: sfc@nelsonpine.co.nz

14. P.T. Kutai Timber Indonesia

P. O. Box. 6913/JKSST Summitmas
II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel : 62-21-2521260
Fax: 62-21-5200313
E-mail: ktijkt@cbn.net.id

15. Plywood Factory Probolinggo

P. O. Box. 101 Probolinggo, JL.
Tanjung Tembaga Baru, Probolinggo,
Jawa Timur, Indonesia
Tel : 62-335-42-2412
Fax: 62-335-42-1669
E-mail: pr@kti.co.id

16. Surabaya Office

P. O. Box. 306, Surabaya, JL. Kusuma
Bangsa No. 19, Surabaya 60272,
Jawa Timur, Indonesia
Tel : 62-31-5343835
Fax: 62-31-5343838
E-mail: ktisby@kti.co.id

17. Samarinda Office

JL. Basuki Rahmat II No. 02
Samarinda 75121, Kalimantan Timur,
Indonesia
Tel : 62-541-741966/737926/748116
Fax: 62-541-741967

18. Alpine MDF Industries Pty Ltd.

Lot-1 Crosher Lane, Wangaratta
VIC 3677, Australia
Tel : 61-3-5721-3522
Fax: 61-3-5721-3588

19. Pacific Wood Products LLC

16310 NE 85th St. Suite 100,
Redmond, Washington 98052, U.S.A.
Tel : 1-425-885-1777
Fax: 1-425-885-0057
E-mail: sfs@sumiforsea.com

Affiliated Companies

20. P.T. Rimba Partikel Indonesia

P. O. Box. 127 KENDAL Desa.
Mororejo, Kaliwungu, Kendal,
Jawa Tengah, Indonesia
Tel : 62-24-8662990
Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id

21. Jakarta Office

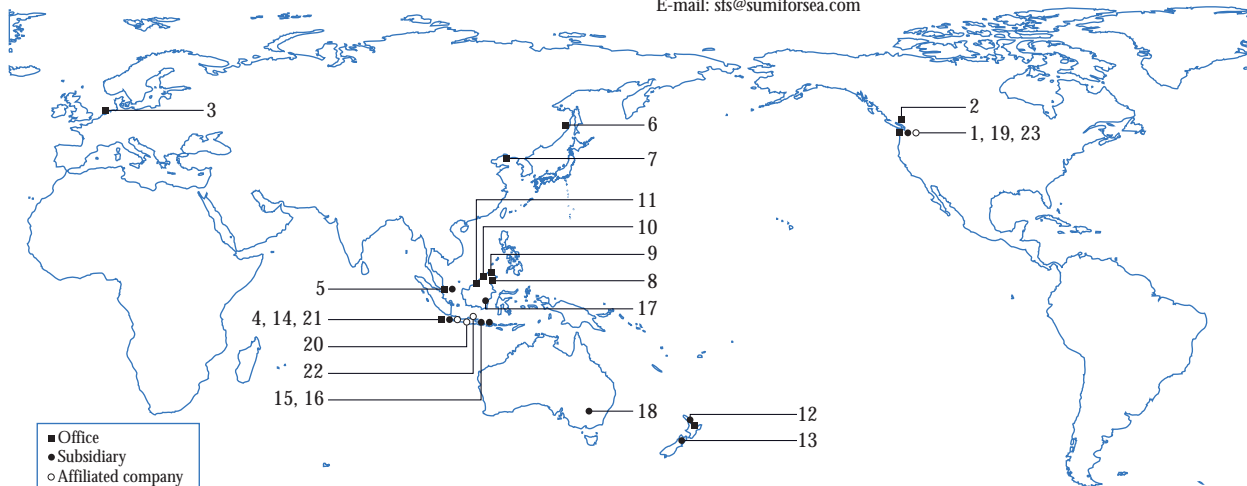
Gedung Idola Tunggal Slipi, JL.
Letjen S.Parmar Kav.67,
Jakarta 11410, Indonesia
Tel : 62-21-5321637
Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id

22. P.T. AST Indonesia

KITW Technopark Blok A-01, JL.
Raya Semarang-Kendal KM. 12,
Semarang, Indonesia
Tel : 62-24-8664800
Fax: 62-24-8664801/8664452
E-mail: asti@ast.co.id

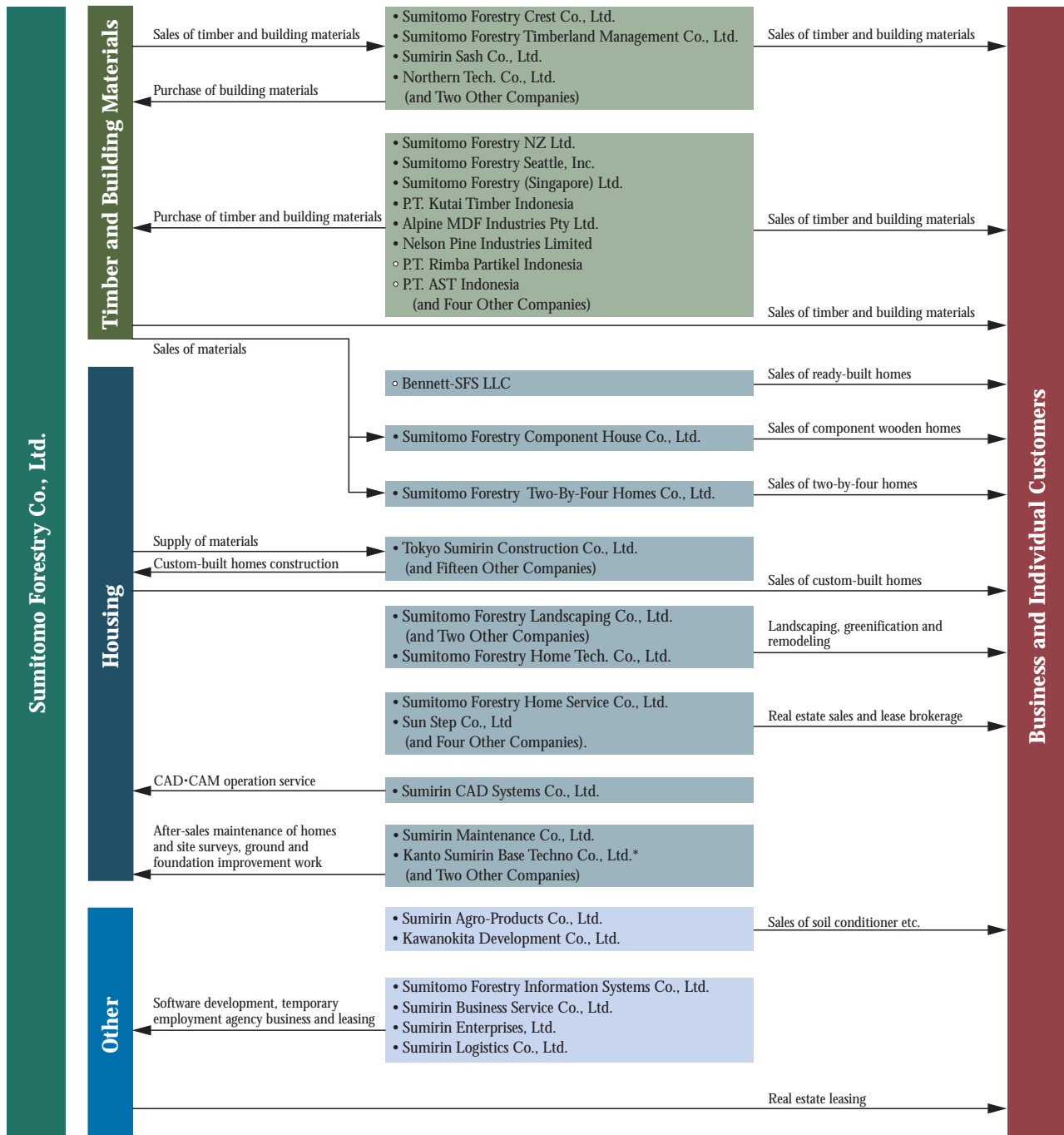
23. Bennett-SFS LLC

c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120
Bellevue Washington 98004, U.S.A.
Tel : 1-425-454-2355
Fax: 1-425-454-1106
E-mail: sfs@sumiforsea.com



(As of August 1 2004)

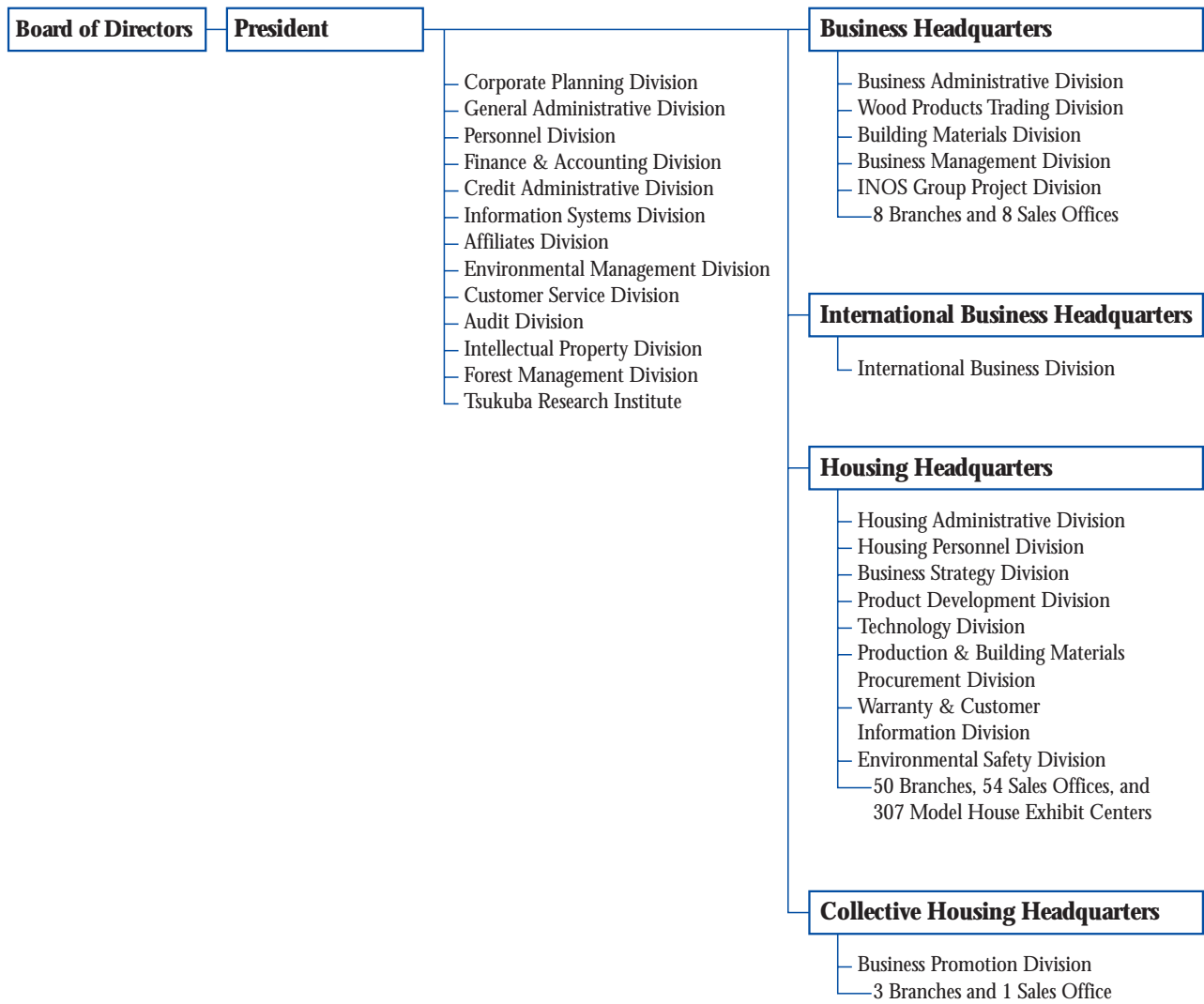
Subsidiaries and Affiliates



• Consolidated subsidiary
◦ Equity-method affiliate

(As of March 31, 2004)

Organization Chart



(As of August 1, 2004)

Board of Directors, Auditors and Executive Officers



Akihiro Ueda
Senior Executive Officer

Kanji Sugano
Vice President and Executive Officer

Ryu Yano
President and Chief Executive Officer

Directors

Ryu Yano*
Kanji Sugano*
Akihiro Ueda*
Shuji Kitamura
Kazuo Kai
Shoichi Takahashi
Hideki Nose
(*Representative Director)

Statutory Auditors

Junji Ikai
Joji Itoh
Hiroshi Miki
Satohiko Sasaki

Executive Officers

President and Chief Executive Officer
Ryu Yano

Vice President and Executive Officer
Kanji Sugano

Senior Executive Officer
Akihiro Ueda

Managing Executive Officers

Shuji Kitamura
Kazuo Kai
Shoichi Takahashi
Hideki Nose
Hideo Kanai

Executive Officers

Kazushige Yahagi
Ryuichi Takayama
Shoichi Iwasa
Shinichi Miyake
Toshio Kohigashi
Mamoru Inoue
Yasuyoshi Ishiwatari
Hideyuki Kamiyama

(As of June 29, 2004)