Financial Section

Contents

Ten-Year Summary

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

	2004	2003	2002
Operating results (For the year):			
Net sales and contract renevues	673,778	645,100	644,730
Timber and building materials*1	293,220	283,517	270,856
Housing*1	393,616	370,421	381,978
Other	12,350	17,882	18,050
Elimination and/or corporate	(25,407)	(26,721)	(26,154)
Gross profit	120,777	109,631	109,437
Selling, general and administrative expenses	103,201	100,858	106,397
Operating income	17,576	8,772	3,040
Timber and building materials*1	3,812	2,238	1,882
Housing*1	17,149	9,920	4,961
Other	644	415	579
Elimination and/or corporate	(4,030)	(3,802)	(4,384)
Recurring income*2	17,073	9,721	3,731
Net income (loss)	9,869	(15,439)	465
Financial position (At year-end):			
Total assets	369,754	357,322	365,531
Working capital	66,377	60,260	60,477
Total interest-bearing debt	19,929	16,497	18,124
Total shareholders' equity	146,268	129,727	147,440
Cash flows:			
Cash flows from operating activities	25,962	19,734	17,332
Cash flows from investment activities	(7,646)	2,026	(16,439)
Cash flows from financing activities	(735)	(8,171)	(9,716)
Cash and cash equivalents at the end of the year	69,312	52,029	38,873
Capital investment*3:			
Tangible fixed assets	4,039	2,761	7,705
Software	1,468	2,077	2,194
Others	883	283	225
Total	6,391	5,123	10,124
Depreciation and amortization	6,446	5,985	5,289
Ratio:			
Gross income margin	17.9%	17.0%	17.0%
Operating income margin	2.6%	1.4%	0.5%
Recurring income margin	2.5%	1.5%	0.6%
Return on equity (ROE)	7.2%	-11.1%	0.3%
Current ratio	135.7%	132.6%	131.8%
Shareholders' equity ratio	39.6%	36.3%	40.3%
Interest coverage ratio	21.9%	18.3%	7.8%
Per share data:			
Net income (loss)	55.8	(87.5)	2.6
Shareholders' equity	830.5	736.4	835.1
Cash dividends	13.00	10.00	10.00

*1 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.

*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 activity. 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 activity.

*3 Disclosure of capital investment was not institutionalized prior to fiscal 2000, thus data for the first five years from fiscal 1995 are partly lacking.

						Millions of yen (Unless otherwise specified)
2001	2000	1999	1998	1997	1996	1995
682,375	699,594	620,615	713,728	817,949	698,461	686,314
279,811	340,988	294,411	333,941	402,795	330,459	328,035
405,150	370,692	335,782	380,781	412,124	361,966	352,159
16,978	15,481	13,900	10,818	17,072	17,501	17,049
(19,565)	(27,568)	(23,480)	(11,812)	(14,043)	(11,465)	(10,930)
118,064	112,269	99,692	107,877	124,586	116,745	112,000
102,065	98,720	93,481	102,072	100,949	97,004	93,909
15,999	13,549	6,210	5,805	23,637	19,740	18,091
5,128	14,770	11,341	6,870	15,380	11,823	—
16,631	5,141	942	1,832	13,155	11,351	—
519	569	1,315	985	1,425	1,721	—
(6,279)	(6,933)	(7,388)	(3,882)	(6,324)	(5,155)	—
16,908	12,541	6,305	6,694	25,500	20,728	19,717
6,994	5,708	134	2,145	13,158	10,886	10,056
371,102	360,935	346,293	341,325	430,217	397,202	370,573
61,319	68,892	71,746	62,992	56,099	41,614	39,185
24,517	35,720	40,059	47,188	54,076	50,891	46,795
150,979	144,914	139,301	140,357	139,353	128,103	117,535
3,468	(3,281)	26,715	9,561	20,946	10,889	(2,575)
(1,960)	(3,330)	2,068	(6,200)	2,952	(7,035)	(32,522)
(13,873)	(5,351)	(8,257)	(9,100)	1,597	2,508	3,128
47,476	59,916	71,971	51,302	57,090	31,594	25,232
4,448	4,373	—	—	—	—	—
1,889	1,264	—	—	—	—	—
252	303	—	—	—	—	—
6,590	5,941	4,556	13,172	11,448	10,171	—
4,551	4,756	5,060	5,057	4,944	4,842	—
17.3%	16.0%	16.1%	15.1%	15.2%	16.7%	16.3%
2.3%	1.9%	1.0%	0.8%	2.9%	2.8%	2.6%
2.5%	1.8%	1.0%	0.9%	3.1%	3.0%	2.9%
4.7%	4.0%	0.1%	1.5%	9.8%	8.9%	8.9%
131.1%	137.7%	141.6%	137.4%	121.0%	117.0%	116.8%
40.7%	40.1%	40.2%	41.1%	32.4%	32.3%	31.7%
22.6%	18.6%	5.8%	4.3%	17.5%	8.9%	9.6%
						Yen
39.6	32.4	0.8	12.2	74.6	61.7	57.0
854.9	821.6	789.8	795.8	790.1	726.3	666.4
10.00	10.00	10.00	10.00	12.00	9.00	9.00

Management's Discussion & Analysis

Market Overview

In the fiscal year ended March 31, 2004, the Japanese economy showed signs of shaking off lingering deflation thanks to strong exports and recovery in private-sector capital investment. Uncertainties remained, however, about consumer spending and employment. The housing industry got a boost from housing sales ahead of the expected expiration of housing loan-related tax breaks. Overall, however, market demand was lackluster amid stagnant consumer spending. New housing starts in the fiscal year edged up 2.5% year on year to 1,173,649 units. Likewise, starts of owner-occupied houses, a major source of earnings for Sumitomo Forestry Group's core housing business, edged up 2.1% to 373,015 units. In the timber and building materials industry, the overall market environment remained solid throughout the fiscal year as steady growth in the home remodeling market more than offset concerns over world-wide hikes in raw material prices and maritime freight costs. Product prices temporarily slumped due to the wait-and-see attitude of a market concerned over revision of the Building Standards Act to give it regulatory power over sick house syndrome. After the revision came into force in July 2003, however, they rapidly rallied in the second half of the fiscal year.

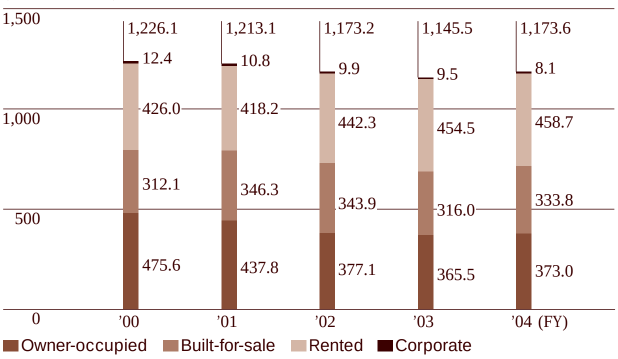
In the current fiscal year, ending March 31, 2005, we expect the recovery in corporate earnings to continue to drive modest improvement in the operating environment. We do not, however, anticipate significant improvement in consumer spending or employment. Consequently, we expect new housing starts in the current fiscal year to decline 2% year on year to around 1,150,000 units, and starts of owner-occupied houses to edge up to around 376,000 units.

Scope of Consolidation

Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries are primarily engaged in timber and building materials distribution, residential construction and related upstream and downstream businesses. For fiscal 2004, ended March 31, 2004, the consolidated financial statements include the results of 55 consolidated subsidiaries (an increase of five companies from the previous fiscal year) and three companies accounted for by the equity method (unchanged from the previous fiscal year).

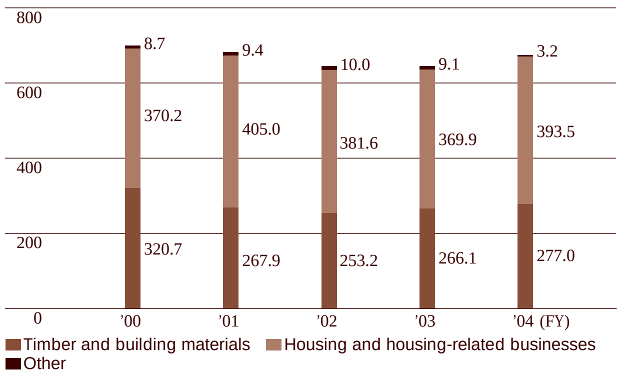
Number of New Housing Starts in Japan

(Thousand units)



Net Sales and Contract Revenues

(Billions of yen)



Overview of Consolidated Operating Results

Sales and Contract Revenues

In this environment, total consolidated net sales and contract revenues increased 4.4% to ¥673.8 billion (US$6,356.4 million). Both of our core businesses, the Timber and Building Materials segment and the Housing and Housing-related Businesses segment, posted increases in revenues.

By segment, profit in the Timber and Building Materials segment rose 4.1% year on year to ¥277.0 billion (US$2,613.5 million). Sumitomo Forestry Crest Co., Ltd. posted sales growth thanks to our thorough efforts to reduce production costs and SG&A expenses. The growth is also attributable to the consolidation of Alpine MDF Industries Pty Ltd. in Australia (inclusion of its revenues for 12 months from January to December 31, 2003).

Sales and contract revenues in the Housing and Housing-Related Businesses segment were up 6.4% to ¥393.5 billion (US$3,712.3 million). Strong demand was seen both in the new construction orders handled by the Company and in the remodeling work handled by Sumitomo Forestry Home Tech. Co., Ltd. New detached house orders and housing completions both remained at the previous fiscal year's levels, 10,529 units and 10,542 units, respectively. In terms of value, however, orders and completions both increased. In the collective housing business, moreover, new construction orders increased 34.9% from the previous year to 1,655 units, supported by our distinctive lineup of products. Consolidation of Sun Step Co., Ltd. and its four subsidiaries (inclusion of these companies' revenues for six months from July to December 31, 2003) also contributed to the sales growth.

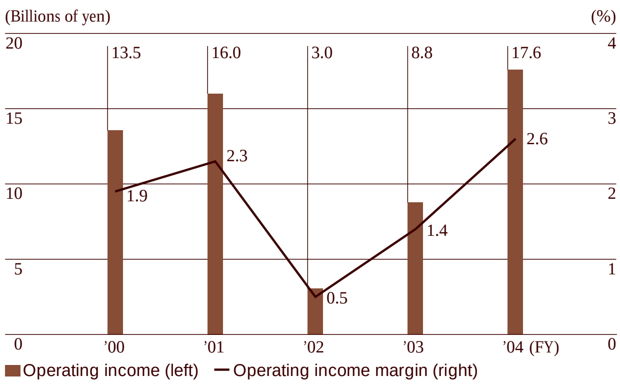
Sales in the Other segment fell 64.6% to ¥3.2 billion (US$30.5 million).

Operating Income

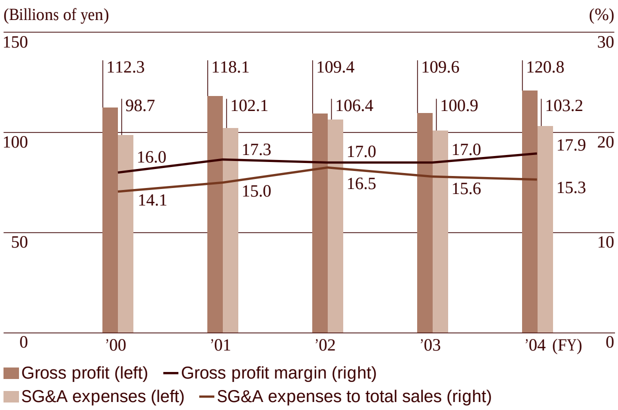
Operating income surged 100.4% to ¥17.6 billion (US$165.8 million), reflecting efforts to reduce housing production costs and curtail selling, general and administrative (SG&A) expenses. The operating margin improved 1.2 percentage points to 2.6%.

In line with our management restructuring plan aimed at restoring profitability, we have made every effort to reduce production costs and curtail SG&A expenses. As a result, we increased gross profit margin to 17.9% from 17.0% and decreased the ratio of SG&A to total sales to 15.3%, from 15.6% in the previous fiscal year. In particular, the

Operating Income and Operating Income Margin



Gross Profit, Gross Profit Margin, SG&A Expenses and SG&A Expenses to Total Sales



Housing segment (non-consolidated) achieved a gross profit margin of 25.2%, up 1.6 percentage points from the previous fiscal year.

By segment, operating income rose 70.3% in the Timber and Building Materials segment to ¥3.8 billion (US$36.0 million), increased 72.9% in the Housing segment to ¥17.1 billion (US$161.8 million), and up 54.9% in the Other segment to ¥0.6 billion (US$6.1 million). The operating income margin was 1.3% in Timber and Building Materials, 4.4% in Housing, and 5.2% in Other.

Interest expenses rose 86.7% to ¥590 million (US$5.6 million), while interest and dividend income increased 6.0% to ¥372 million (US$3.5 million).

With regard to other income (expenses), the revision of the retirement benefits accounting system, which reduced employees' retirement benefit obligation, coupled with improvements in the investing environment for our pension fund, allowed us to post amortization of prior service costs of ¥9.4 billion (US$89.1 million) and actuarial gains of ¥4.3 billion (US$40.4 million), for the fiscal year under review. At the same time, however, we posted impairment losses of ¥5.5 billion (US$52.2 million), which was recognized according to the accelerated application of asset impairment accounting relating to fixed assets.

Net Income

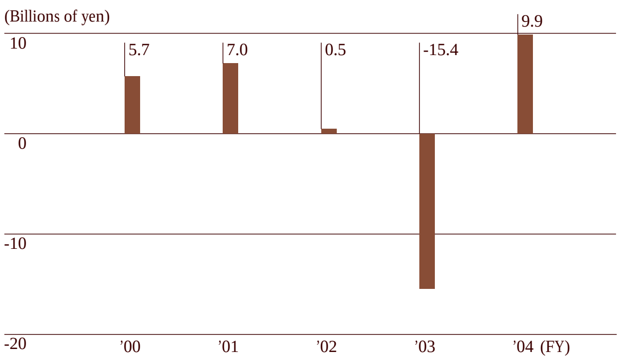
Income before income taxes and minority interests was ¥25.1 billion (US$236.4 million), compared with a loss of ¥21.9 billion in the previous fiscal year. Net income amounted to ¥9.9 billion (US$93.1 million), compared with a net loss of ¥15.4 billion in fiscal 2003. Net income per share of common stock was ¥55.81 (US$0.52), compared with a net loss per share of ¥87.53 in the previous fiscal year.

Cash Flows

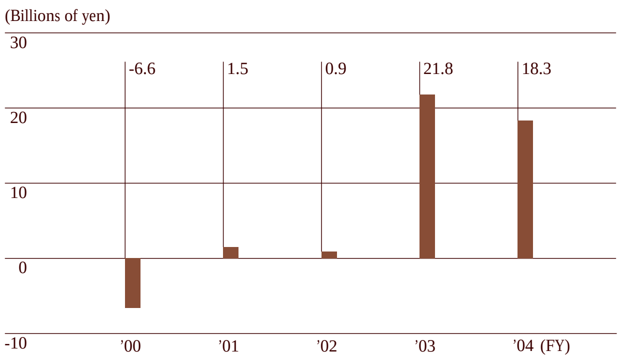
Net cash provided by operating activities increased 31.6% compared with the previous fiscal year to ¥26.0 billion (US$244.9 million). The net increase is mainly attributable to an increase in operating income, a decrease in trade receivables, and an increase in advances, despite the reversal of severance indemnities.

Net cash used in investment activities amounted to ¥7.6 billion (US$72.1 million), compared with cash provided by investment activities of ¥2.0 billion in fiscal 2003. The net cash inflow in the previous fiscal year was due mainly to the redemption of commercial paper investments. In the fiscal year under review, the Company purchased investment securities to be managed in trust with a view to strengthen-

Net Income



Free Cash Flows*



* Free cash flows = cash flows from operating activities + cash flows from investing activities

ing its defined distribution pension plan. It also invested in the equities of Sun Step Co., Ltd.

Net cash used in financing activities substantially declined to ¥0.7 billion (US$6.9 million) from ¥8.2 billion in the previous fiscal year. The Company increased short-term and long-term borrowings mainly in overseas subsidiaries, despite corporate bond redemption.

Cash and cash equivalents at the end of the year totaled ¥69.3 billion (US$653.9 million), up 33.2% from the previous year.

Financial Position

Total current assets rose 3.0% to ¥252.3 billion (US$2,380.5 million), mainly due to an increase in marketable securities for short-term excess funds investment, despite a lower level of receivables. Net property, plant and equipment fell 1.3% to ¥63.1 billion (US$595.6 million), mainly due to the impairment accounting of land and an increase in accumulated depreciation. In contrast, investments and other assets increased 14.4% to ¥46.9 billion (US$442.2 million), mainly due to revaluation of their book values in line with stock price increases. As a result, total assets stood at ¥369.8 billion (US$3,488.2 million), up 3.5% from the end of the previous fiscal year.

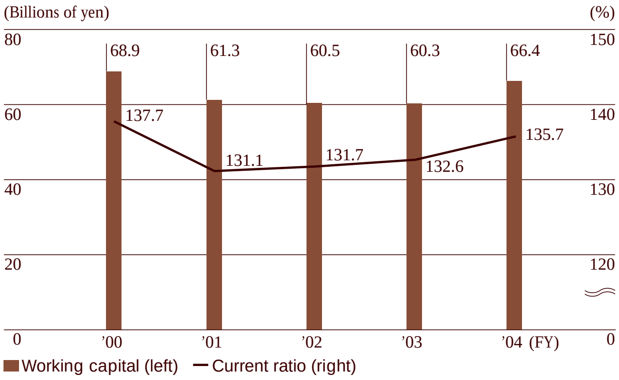
Total current liabilities increased 0.6% to ¥186.0 billion (US$1,754.3 million), while total long-term liabilities declined 13.1% to ¥37.1 billion (US$350.5 million) mainly because accrued employees' retirement benefits decreased ¥12.7 billion (US$120.2 million), due to a change in the Company's retirement benefit accounting method in the wake of the introduction of the cash balance plan. As a result, total liabilities declined 2.0% to ¥223.1 billion (US$2,104.7 million).

Working capital (current assets minus current liabilities) rose 10.1% to ¥66.4 billion (US$626.2 million). The current ratio (current assets divided by current liabilities) edged up 3.1 percentage points to 135.7%.

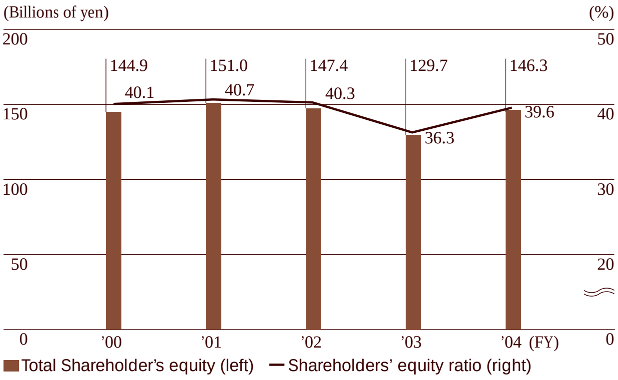
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt, and long-term debt) increased 20.8% to ¥19.9billion (US$188.0 million).

Total shareholder's equity rose 12.8% to ¥146.3 billion (US$1,379.9 million). The shareholders' equity ratio improved 3.3 percentage points to 39.6% from 36.3% at the end of the previous fiscal year.

Working Capital and Current Ratio



Total Shareholder's Equity and Shareholders' Equity Ratio



Consolidated Balance Sheets

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 2004 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2004	2003	2004
Current assets:			
Cash and time deposits (Note 11)	¥ 30,169	¥ 29,685	$ 284,613
Marketable securities (Note 5)	39,356	22,445	371,283
Receivables—			
Notes and accounts, trade	81,714	85,029	770,886
Loans and other	52,128	60,580	491,773
Inventories—			
Finished goods, logs and lumber	16,841	15,527	158,877
Developed land and housing for sale	5,994	7,155	56,547
Land and housing projects in progress	16,215	15,146	152,971
Deferred income taxes (Note 8)	8,322	7,376	78,509
Other current assets	2,414	2,711	22,773
Allowance for doubtful accounts	(828)	(608)	(7,811)
Total current assets	252,328	245,049	2,380,452
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	16,965	17,575	160,047
Buildings and structures	28,838	27,678	272,056
Machinery and equipment	49,846	44,502	470,245
Timber (Note 6)	11,083	11,117	104,556
Construction in progress	1,943	1,531	18,330
	108,677	102,405	1,025,254
Less accumulated depreciation	(45,542)	(38,458)	(429,641)
Net property, plant and equipment	63,135	63,946	595,613
Intangible assets, net of amortization:			
Consolidation goodwill	1,883	1,396	17,764
Other intangible assets	5,533	5,945	52,198
Total intangible assets	7,416	7,341	69,962
Investments and other assets:			
Investment securities (Note 5)	36,411	18,831	343,500
Long-term loans and receivables	2,346	4,650	22,132
Deferred income taxes (Note 8)	1,229	11,796	11,594
Other assets	8,605	7,967	81,179
Allowance for doubtful accounts	(1,718)	(2,260)	(16,207)
Total investments and other assets	46,875	40,984	442,216
	¥ 369,754	¥ 357,322	$ 3,488,245

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 4) 2004
Current liabilities:			
Payables—			
Notes and accounts, trade	¥ 108,986	¥ 116,820	$ 1,028,169
Other	6,232	6,356	58,792
Short-term debt (Note 7)	8,620	6,525	81,320
Current portion of long-term debt (Note 7)	1,007	2,426	9,500
Advances received from customers	37,739	34,195	356,028
Accrued income taxes	7,055	5,365	66,556
Accrued employees' bonuses	7,072	6,274	66,716
Other current liabilities	9,235	6,825	87,122
Total current liabilities	185,951	184,789	1,754,254
Long-term liabilities:			
Long-term debt (Note 7)	10,300	7,545	97,169
Deferred income taxes (Note 8)	2,040	1,024	19,245
Accrued employees' retirement benefits (Note 16)	11,416	24,157	107,698
Other	13,391	10,021	126,330
Total long-term liabilities	37,149	42,750	350,462
Minority interests in consolidated subsidiaries	385	55	3,632
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	261,056
Capital surplus	25,650	25,650	241,981
Retained earnings	85,148	77,303	803,283
Unrealized gain on available-for-sale securities	8,971	1,646	84,632
Foreign currency translation adjustments	(811)	(2,255)	(7,650)
Treasury stock (530,083 shares in 2004 and 442,841 shares in 2003)	(362)	(289)	(3,415)
Total shareholders' equity	146,268	129,727	1,379,886
	¥ 369,754	¥ 357,322	$ 3,488,245

Consolidated Statements of Operations

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 2004 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2004	2003	2004
Sales:			
Net sales	¥ 314,562	¥ 295,115	$ 2,967,566
Contract revenues	359,216	349,984	3,388,830
Total	673,778	645,100	6,356,396
Cost of sales:			
Cost of sales	292,558	273,299	2,759,981
Cost of contracts completed	260,443	262,169	2,457,009
Total	553,001	535,468	5,216,990
Gross profit	120,777	109,631	1,139,405
Selling, general and administrative expenses (Note 10)	103,201	100,858	973,594
Operating income	17,576	8,772	165,811
Other income (expenses):			
Interest and dividends income	372	351	3,509
Interest expense	(590)	(316)	(5,566)
Loss on devaluation of investment securities	(13)	(2,580)	(122)
Loss on devaluation of real estate for sale and other assets	(589)	(7,786)	(5,556)
Profits from partial refund in lieu of welfare pension	—	7,045	—
Loss on devaluation of property, plant and equipment	—	(2,306)	—
Amortization of prior service costs	9,440	—	89,056
Amortization of unrecognized actuarial gains (losses)	4,279	(22,659)	40,367
Write-down of consolidation goodwill	—	(1,427)	—
Impairment loss	(5,531)	—	(52,179)
Other, net (Note 9)	119	(988)	1,122
Total	7,486	(30,670)	70,622
Income (loss) before income taxes and minority interests	25,062	(21,897)	236,433
Income taxes (Note 8):			
Current	9,373	6,763	88,424
Deferred	5,787	(13,225)	54,594
Total	15,161	(6,461)	143,028
Minority interests	31	3	292
Net Income (loss)	¥ 9,869	¥ (15,439)	$ 93,103
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net Income (loss)	¥ 55.81	¥ (87.53)	$ 0.52
Cash dividends	13.00	10.00	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, 2004 AND 2003

	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, 2002	176,603,881	¥ 27,672	¥ 25,650	¥ 94,538	¥ 2,369	¥ (2,760)	¥ (30)
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	(723)	—	—
Changes in foreign currency translation	—	—	—	—	—	505	—
Cash dividends (¥10.00 per share)	—	—	—	(1,765)	—	—	—
Bonuses to directors	—	—	—	(30)	—	—	—
Treasury stock acquired, net (399,290 shares)	—	—	—	—	—	—	(259)
Net loss	—	—	—	(15,439)	—	—	—
Balance as at March 31, 2003	176,603,881	¥ 27,672	¥ 25,650	¥ 77,303	¥ 1,646	¥ (2,255)	¥ (289)
Net income	—	—	—	9,869	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	7,325	—	—
Changes in foreign currency translation	—	—	—	—	—	1,444	—
Cash dividends (¥13.00 per share)	—	—	—	(2,025)	—	—	—
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	¥ 25,650	¥ 85,148	¥ 8,971	¥ (811)	¥ (362)

	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, 2003	$ 261,056	$ 241,981	$ 729,273	$ 15,528	$ (21,273)	$ (2,726)
Net income	—	—	93,103	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	69,103	—	—
Changes in foreign currency translation	—	—	—	—	13,622	—
Cash dividends ($0.12 per share)	—	—	(19,103)	—	—	—
Gain on sale of treasury stock	—	(0)	—	—	—	—
Treasury stock acquired, net (87,242 shares)	—	—	—	—	—	(688)
Balance as at March 31, 2004	$ 261,056	$ 241,981	$ 803,283	$ 84,632	$ (7,650)	$ (3,415)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of u.s. dollars (Note 4)
	2004	2003	2004
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 25,062	¥ (21,897)	$ 236,433
Adjustments—			
Depreciation and amortization	6,446	5,985	60,811
Impairment loss	5,531	—	52,179
Write-down of consolidation goodwill	364	1,427	3,433
Provision for (reversal of) doubtful account	(368)	1,515	(3,471)
Provision for (reversal of) severance indemnities, less payments	(12,796)	16,687	(120,716)
Interest and dividends income	(372)	(351)	(3,509)
Interest expense	590	316	5,566
Equity in earnings of affiliates	(163)	(70)	(1,537)
Losses on devaluation of marketable securities and investment securities	13	2,580	122
Losses (gains) on sales of marketable securities and investment securities, net	(109)	14	(1,028)
Losses on devaluation of fixed assets, net	—	2,306	—
Losses (gains) on disposal of fixed assets, net	(25)	650	(235)
Gains on liquidation of subsidiaries	(56)	—	(528)
Changes in assets and liabilities:			
Notes and accounts receivable, trade	9,666	13,147	91,188
Inventories	(1,012)	5,542	(9,547)
Other current assets	4,219	4,480	39,801
Notes and accounts payable, trade	(8,064)	(9,726)	(76,075)
Advances received from customers	3,771	(488)	35,575
Other current liabilities	1,518	(1,366)	14,320
Other	(233)	(241)	(2,198)
Total	33,984	20,514	320,603
Interest and dividends income received	370	350	3,490
Interest paid	(589)	(379)	(5,556)
Income taxes paid, net	(7,803)	(750)	(73,613)
Net cash provided by operating activities	25,962	19,734	244,924
Cash flows from investment activities:			
Payments for purchases of marketable securities	(2,899)	—	(27,349)
Proceeds from sales of marketable securities	2,946	8,000	27,792
Payments for purchases of fixed assets	(6,290)	(5,882)	(59,339)
Proceeds from sales of fixed assets	3,626	4,070	34,207
Payments for purchases of intangible assets	(1,524)	(2,142)	(14,377)
Payments for purchases of investment securities	(8,082)	(1,387)	(76,245)
Proceeds from sales of investment securities	2,511	30	23,688
Proceeds form liquidation of subsidiaries	272	—	2,566
Payments for long-term loans receivable	(79)	(340)	(745)
Repayments of long-term loans receivable	2,278	932	21,490
Decrease (increase) in short-term loans receivable	(1,163)	(16)	(10,971)
Net payments for purchases of stock in subsidiary newly consolidated	—	(1,893)	—
Net proceeds from purchase of stock in subsidiary newly consolidated	221	—	2,084
Other	537	654	5,066
Net cash provided by (used in) investment activities	(7,646)	2,026	(72,132)
Cash flows from financing activities:			
Proceeds from long-term debt	2,391	—	22,556
Repayments of long-term debt	(3,077)	(4,874)	(29,028)
Increase (decrease) in short-term borrowings	2,053	(1,267)	19,367
Dividends paid	(2,029)	(1,769)	(19,141)
Other	(72)	(259)	(679)
Net cash used in financing activities	(735)	(8,171)	(6,933)
Effect of exchange rate changes on cash and cash equivalents	(297)	(433)	(2,801)
Net increase in cash and cash equivalents	17,282	13,156	163,037
Cash and cash equivalents at the beginning of the year	52,029	38,873	490,839
Cash and cash equivalents at the end of the year (Note 11)	¥ 69,312	¥ 52,029	$ 653,886

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES

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 that include the construction, sale, after-sales maintenance and landscaping of custom-built and other homes; and other lifestyle related businesses, including the sale and brokerage of real estate, 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 have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of individual amounts.

3. Summary of Significant Accounting Policies

(1) Accounting Changes

(a) Employees' retirement benefits

Until the year ended March 31, 2002, the Company amortized unrecognized actuarial differences arising under the retirement benefit accounting system over a five-year period commencing with the fiscal year following the year in which they arose. Effective April 1, 2002, the Company changed its accounting method, such differences will be amortized entirely in the fiscal year in which they arise.

Stock prices and interest rates have declined substantially since the retirement benefit accounting system was introduced, and huge unrecognized actuarial differences (losses) have accumulated. Under the previous method, the probability that a market recovery or other factors arising during the amortization period would eliminate these unrecognized actuarial differences was strikingly low.

In response to these circumstances, the Company sought to reduce the incidence of actuarial differences through the conversion into cash of contributed securities held as assets of retirement benefit trusts, as appropriate. The Company also adopted market-neutral management to reduce the effects of changes in securities prices on employees' pension funds. The salary-based retirement benefit system to which the Company had adhered since its establishment has been completely revised. For example, to reduce retirement benefit obligations, the return of the substituted portion of governmental welfare pension funds was carried out, and a new, performance-based retirement benefit system was adopted.

The return of the substituted portion of governmental welfare pension funds shortened the average benefit period, and a decline in long-term interest rates brought the discount rate down. Together with this, the expected rate of return on investments has been revised downward in response to changes in asset management policy and the deterioration of the investment environment for pension fund assets.

As a result of the foregoing, the accounting environment for retirement benefit accounting systems at the Company and some of its consolidated subsidiaries has changed substantially since the systems were adopted.

Accordingly, and in view of the fact that the previous method of amortizing unrecognized actuarial differences is not necessarily suitable to differences occurring at this point in time in this accounting environment, and as the condition of a company's retirement benefit system is quickly reflected in its financial statements, the Company decided to establish a solid financial position by changing its accounting policy to require that unrecognized actuarial differences be completely amortized in the fiscal year in which they arise.

As a result of this change, the Company posted ¥22,659 million in amortization of actuarial differences as an extraordinary loss. The effect of this change was to increase operating income by ¥2,186 million and to decrease income before income taxes and minority interests by ¥20,472 million for the year ended March 31, 2003, compared with the case on which the previous method was adopted, respectively.

(b) 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 5,531 million yen, 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 difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period.

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 constructions 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) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the short term, are reported at fair value, and the related unrealized gains and losses are included in earnings; ii) 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 iii) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Recently issued accounting standards

Effective April 1, 2002, the Company adopted Financial Accounting Standard No. 1, "Accounting Standard on Treasury Stock and Reversal of Legal Reserves". The effect of the adoption of the new standard for net income is immaterial.

The Company has adopted Financial Accounting Standard No. 2, "Accounting Standard for Earning per Share" and the Financial Accounting Standards implementation Guidance No. 4, "Implementation Guidance for the Accounting Standards for Earning per Share", since the year beginning April 1, 2002. The effect of adoption of this standard and guidance is immaterial.

(s) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2003 have been reclassified to conform to presentation in 2004.

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 ¥106=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2004. 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, 2004 and 2003 were as follows;

	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 . . .	¥39,602	¥ —	¥ —	¥39,602

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . .	¥14,288	¥ 3,999	¥(1,244)	¥17,044
Debt securities . . .	—	—	—	—
Held-to-maturity:				
Debt securities . . .	¥22,805	¥ —	¥ —	¥22,805

	Thousands of U.S. dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . .	$185,028	$142,547	$(1,141)	$326,433
Debt securities . . .	—	—	—	—
Held-to-maturity:				
Debt securities . . .	$373,603	$ —	$ —	$373,603

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004			
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due within one year	¥ —	¥39,356	$ —	$371,283
Due after one year through five years	—	246	—	2,320
	¥ —	¥39,602	$ —	$373,603

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, 2004 and 2003 comprised:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Standing timber:			
Mature timber	¥ 10,471	¥ 10,386	$ 98,783
Growing timber	611	731	5,764
	11,083	11,117	104,556
Land	478	478	4,509
	¥ 11,561	¥ 11,595	$ 109,066

The timberland accounts at March 31, 2004 and 2003 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of timberland:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	¥ 268	¥ 268	$ 2,528

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2004 and 2003 generally represented short-term borrowings which bore interest of 1.74% and 1.44% per annum, respectively. Long-term debt at March 31, 2004 and 2003, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks and insurance companies, due 2005 to 2009 with interest of 5.32%:			
Secured	¥ 7,790	¥ 7,279	$ 73,490
Unsecured	3,177	993	29,971
Unsecured floating rate Euro–yen bonds:			
LIBOR plus 0.68 basis points, due 2003	—	1,200	—
LIBOR plus 0.92 basis points, due 2003	—	500	—
Debenture bonds:			
0.35 basis points	240	—	2,264
0.64 basis points	100	—	943
	11,307	9,972	106,669
Portion due within one year	1,007	2,426	9,500
	¥ 10,300	¥ 7,545	$ 97,169

The following assets were pledged to secure bank loans and long-term debt at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Receivables—			
Notes and accounts, trade	¥ 205	¥ 219	$ 1,933
Finished goods, logs and lumber	524	561	4,943
Land	2,693	1,480	25,405
Buildings and structures	4,176	3,061	39,396
Machinery and equipment	9,415	9,606	88,820
Timberland	2,117	2,085	19,971
	¥ 19,133	¥ 17,015	$ 180,500

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

YEARS ENDING MARCH 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,007	$ 9,500
2006	7,324	69,094
2007	463	4,367
2008	432	4,075
2009	1,845	17,405
Thereafter	234	2,207
	¥ 11,307	$ 106,669

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 2004 and 2003 was 42.0%. 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 will be changed from 42.0% to 40.0%.

Due to the change of tax rate, net deferred tax assets for fiscal 2003 decreased ¥444 million, and unrealized gains on available-for-sale securities increased ¥54 million.

Also, net expenses increased ¥499 million.

The chart below shows the differences in the statutory tax rate and effective income tax rate. No entries are shown for fiscal 2003 as the Company recorded a loss before income taxes and minority interests.

	2004	2003
Statutory tax rate	42.0%	42.0%
Non–deductible expense for purposes	0.8	—
Per capita portion of Inhabitant Tax	0.9	—
Amortization of consolidation differences	0.6	—
Effect of tax rate changes	1.2	—
Valuation allowance	17.2	—
Other	(2.3)	—
Effective income tax rate	60.5%	— %

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,033	¥ 2,430	$ 28,613
Provision for guarantee for after-cost of construction	313	226	2,952
Advances received	437	361	4,122
Accrued enterprise taxes	576	476	5,433
Devaluation of real estate for sale and other assets	4,913	5,297	46,349
Devaluation of property, plant and equipment	550	922	5,188
Impairment loss	2,212	—	20,867
Pension and severance costs	6,400	12,800	60,377
Unrealized intercompany profit	357	309	3,367
Tax loss carryforward	2,525	2,901	23,820
Other	2,642	1,874	24,924
Gross deferred tax assets	23,962	27,601	226,056
Valuation allowance	(7,154)	(2,843)	(67,490)
Total deferred tax assets	16,807	24,757	158,556
Deferred tax liabilities:			
Deferred gains on sales of property	(1,090)	(1,090)	(10,283)
Unrealized gain on available-for-sale securities	(5,990)	(1,100)	(56,509)
Gain on securities contributed to employee retirement benefit trust	(1,627)	(3,128)	(15,349)
Other	(587)	(1,290)	(5,537)
Gross deferred tax liabilities	(9,295)	(6,610)	(87,688)
Net deferred tax assets	¥ 7,511	¥ 18,147	$ 70,858

Net deferred tax assets are included in the consolidated balance sheets at March 31, 2004 and 2003 as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets—			
Deferred income taxes	¥ 8,322	¥ 7,376	$ 78,509
Investment and other assets—			
Deferred income taxes	1,229	11,796	11,594
Current liabilities—			
Other	—	—	—
Long-term liabilities—			
Deferred income taxes	(2,040)	(1,024)	(19,245)
Net deferred tax assets	¥ 7,511	¥ 18,147	$ 70,858

9. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gain on sales of property, plant and equipment	¥ 34	¥ 111	$ 320
Gain on sales of investment securities	109	0	1,028
Loss on sales of property, plant and equipment	—	(141)	—
Loss on sales of investment securities	—	(14)	—
Loss on disposal of property, plant and equipment	—	(493)	—
Other, net	(25)	(452)	(235)
	¥ 119	¥ (988)	$ 1,122

10. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2004 and 2003 were ¥925 million (US$8,726 thousand) and ¥1,027 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥ 30,169	¥ 29,685	$ 284,613
Short-term investments	39,198	22,399	369,792
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(55)	(55)	(518)
Cash and cash equivalents	¥ 69,312	¥ 52,029	$ 653,886

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 Company and its subsidiaries 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, 2004 and 2003, which are included in retained earnings on the accompanying consolidated balance sheets, are ¥2,857 million (US$26,952 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, 2004 and 2003 were ¥5,167 million (US$48,745 thousand) and ¥5,984 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
	2004	2003	2004
Buildings and structures	¥ 12,573	¥ 13,164	$ 118,613
Machinery and equipment	8,688	9,180	81,962
Other	190	203	1,792
Accumulated depreciation	(12,467)	(11,911)	(117,613)
Accumulated Impairment loss	(379)	—	(3,575)
	¥ 8,606	¥ 10,636	$ 81,188

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Depreciation	¥ 4,954	¥ 5,720	$ 46,735
Interest expenses	184	246	1,735
Impairment loss	(379)	—	(3,575)

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, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current obligation	¥ 4,051	¥ 4,469	$ 38,216
Long-term obligation	5,069	6,334	47,820
Present value of lease payments	¥ 9,121	¥ 10,803	$ 86,047
Impairment loss on leased assets	¥ 379	¥ —	$ 3,575

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2004 and 2003 were ¥195 million (US$1,839 thousand) and ¥271 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, 2004 and 2003, comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Buildings and structures	¥ —	¥ —	$ —
Machinery and equipment	930	1,237	8,773
Other	3	3	28
Accumulated depreciation	(669)	(817)	(6,311)
	¥ 264	¥ 423	$ 2,490

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Depreciation	¥ 172	¥ 243	$ 1,622
Interest income	22	35	207

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, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current obligation	¥ 116	¥ 172	$ 1,094
Long-term obligation	151	256	1,424
Present value of lease receipts	¥ 267	¥ 428	$ 2,518

14. Contingent Liabilities

Contingent liabilities as at March 31, 2004 and 2003, for loans guaranteed amounted to ¥7,227 million (US$68,179 thousand) and ¥6,640 million, and for notes discounted and endorsed in the ordinary course of business amounted to ¥46 million (US$433thousand) and ¥78 million.

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

Sumitomo Forestry 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 circumstances, 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, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥ (33,394)	¥ (40,541)	$(315,037)
Fair value of plan assets	21,977	16,384	207,330
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (11,416)	¥ (24,157)	$(107,698)

The components of net periodic benefit costs for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 3,288	¥ 3,210	$ 31,018
Interest cost	1,051	1,434	9,915
Expected return on plan assets	(127)	(805)	(1,198)
Recognized actuarial gain (loss)	(4,279)	22,659	(40,367)
Amortization of prior service cost	(9,440)	—	(89,056)
Net periodic benefit costs	(9,508)	26,499	(89,698)
Profits from partial refund in lieu of welfare pension	—	(7,045)	—
Total	¥ (9,508)	¥ 19,453	$ (89,698)

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

Assumptions used for the year ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	2.1%	2.5%
Expected rate of return on plan assets	0.7%	0.8%
Recognition period of actuarial gain/loss	1 year	1 year
Amortization of prior service cost	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 and sale of interiors, brokerage of real estate

Other: golf course management, leasing and other

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

	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	¥ 277,033	¥ 393,507	¥ 3,238	¥ 673,778	¥ —	¥ 673,778
Intersegment transfers	16,186	109	9,112	25,407	(25,407)	—
Total	293,220	393,616	12,350	699,186	(25,407)	673,778
Operating expenses	289,407	376,466	11,706	677,580	(21,377)	656,202
Operating income	¥ 3,812	¥ 17,149	¥ 644	¥ 21,606	¥ (4,030)	¥ 17,576
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 146,169	¥ 108,159	¥ 7,893	¥ 262,222	¥ 107,531	¥ 369,754
Depreciation and amortization	2,959	2,224	627	5,811	635	6,446
Impairment loss	—	2,414	3,117	5,531	—	5,531
Capital investment	1,723	3,161	999	5,884	507	6,391

	Millions of yen					
YEAR ENDED MARCH 31, 2003	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥ 266,078	¥ 369,885	¥ 9,136	¥ 645,100	¥ —	¥ 645,100
Intersegment transfers	17,439	536	8,745	26,721	(26,721)	—
Total	283,517	370,421	17,882	671,821	(26,721)	645,100
Operating expenses	281,279	360,500	17,466	659,246	(22,919)	636,327
Operating income	¥ 2,238	¥ 9,920	¥ 415	¥ 12,575	¥ (3,802)	¥ 8,772
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 145,423	¥ 133,010	¥ 31,934	¥ 310,368	¥ 46,953	¥ 357,322
Depreciation and amortization	2,936	2,217	839	5,993	(8)	5,985
Capital investment	2,627	1,417	581	4,626	496	5,123

YEAR ENDED MARCH 31, 2004	Thousands of U.S. dollars					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	$2,613,518	$3,712,330	$ 30,547	$6,356,396	$ —	$6,356,396
Intersegment transfers	152,698	1,028	85,962	239,688	(239,688)	—
Total	2,766,226	3,713,358	116,509	6,596,094	(239,688)	6,356,396
Operating expenses	2,730,254	3,551,566	110,433	6,392,264	(201,669)	6,190,584
Operating income	$ 35,962	$ 161,783	$ 6,075	$ 203,830	$ (38,018)	$ 165,811
Identifiable assets, depreciation and capital investment:						
Identifiable assets	$1,378,952	$1,020,367	$ 74,462	$2,473,792	$1,014,443	$3,488,245
Depreciation and amortization	27,915	20,981	5,915	54,820	5,990	60,811
Impairment loss	—	22,773	29,405	52,179	—	52,179
Capital investment	16,254	29,820	9,424	55,509	4,783	60,292

Notes: (Year ended March 31, 2003)

As stated in Note 3 (1) (a), the Company changed the retirement benefit accounting system so that the unrecognized actuarial losses will be amortized in one year instead of next five years. ¥22,659 million of the losses is included in other expenses. This change in the method of amortization lowered the operating expenses of ¥229 million in the timber segment, ¥1,828 million in the housing and building construction segment and ¥9 million in other segment. These decrease of expenses led to increases in operating income.

(Year ended March 31, 2004)

As stated in Note3 (1) (b), 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 the fiscal year. The effect of this change on the segment information was to decrease assets of housing and other segment by ¥2,414 million (US $22,773 thousand) and ¥3,117 million (US $29,405 thousand).

Change in the business segment information

In the year ended March 31, 2004, the Company and its consolidated subsidiaries 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 ¥6,060 million ($57,169 thousand) and sales in other segment was decreased by ¥5,858 million ($55,264 thousand).

Operating expenses increased ¥5,693 million ($53,707 thousand) in housing segment and decreased ¥5,584 million ($52,679 thousand) in other segment. Operating income increased ¥367 million ($3,462 thousand) in housing segment and decreased ¥274 million ($2,584 thousand) in other segment.

Segment information for the year ended March 31, 2003 in new business segment is shown below:

YEAR ENDED MARCH 31, 2003	Millions of yen					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥ 266,078	¥ 375,365	¥ 3,656	¥ 645,100	¥ —	¥ 645,100
Intersegment transfers	17,439	552	8,918	26,910	(26,910)	—
Total	283,517	375,918	12,574	672,011	(26,910)	645,100
Operating expenses	281,279	365,872	12,164	659,316	(22,989)	636,327
Operating income	¥ 2,238	¥ 10,045	¥ 410	¥ 12,694	¥ (3,921)	¥ 8,772
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 145,423	¥ 135,632	¥ 12,532	¥ 293,588	¥ 63,733	¥ 357,322
Depreciation and amortization	2,936	2,298	761	5,996	(11)	5,985
Capital investment	2,627	1,479	519	4,626	496	5,123

b) Geographical segment information—

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

	Millions of yen				
YEAR ENDED MARCH 31, 2004	Domestic	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	¥ 659,702	¥ 14,076	¥ 673,778	¥ —	¥ 673,778
Intersegment transfers	1,689	16,455	18,144	(18,144)	—
Total	661,392	30,531	691,923	(18,144)	673,778
Operating expenses	639,899	30,514	670,413	(14,211)	656,202
Operating income	¥ 21,492	¥ 17	¥ 21,509	¥ (3,933)	¥ 17,576
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 231,050	¥ 29,523	¥ 260,573	¥ 109,180	¥ 369,754

	Thousands of U.S. dollars				
YEAR ENDED MARCH 31, 2004	Domestic	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	$ 6,223,603	$ 132,792	$ 6,356,396	$ —	$ 6,356,396
Intersegment transfers	15,933	155,235	171,169	(171,169)	—
Total	6,239,547	288,028	6,527,575	(171,169)	6,356,396
Operating expenses	6,036,783	287,867	6,324,650	(134,066)	6,190,584
Operating income	$ 202,754	$ 160	$ 202,915	$ (37,103)	$ 165,811
Identifiable assets, depreciation and capital investment:					
Identifiable assets	$ 2,179,716	$ 278,518	$ 2,458,235	$ 1,030,000	$ 3,488,245

c) Overseas sales information—

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

Shin Nihon & Co.

Certified Public Accountants
Hibiya Kokusai Building,
2-3, Uchisaiwai-cho, 2-chome,
Chiyoda-ku, Tokyo 100-0011, Japan
C.P.O. Box 1196, Tokyo 100-8641

Phone: +81(3)3503-1100
Fax: +81(3)3503-1197

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. and consolidated subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of operations, 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 Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2003 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) (a) to the consolidated financial statements, Sumitomo Forestry Co., Ltd. and certain subsidiaries changed its accounting method of employee's retirement benefits in the year ended March 31, 2003.

As discussed in Note 3 (1) (b) to the consolidated financial statements, Sumitomo Forestry Co., Ltd. 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, 2004 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.

June 29, 2004

Shin Nihon & Co.

Investor Information

(As of March 31, 2004)

Stock Exchange Listings:

Tokyo, Osaka (Code 1911)

Common Stock

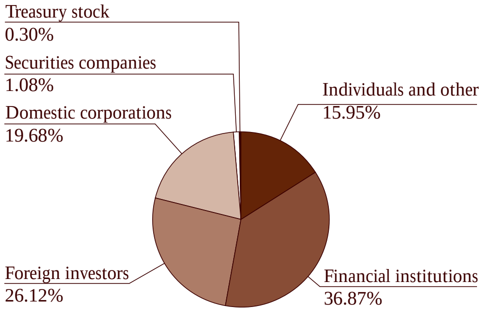
Authorized: 400,000,000 shares

Issued: 176,603,881 shares

Number of Shareholders:

11,710

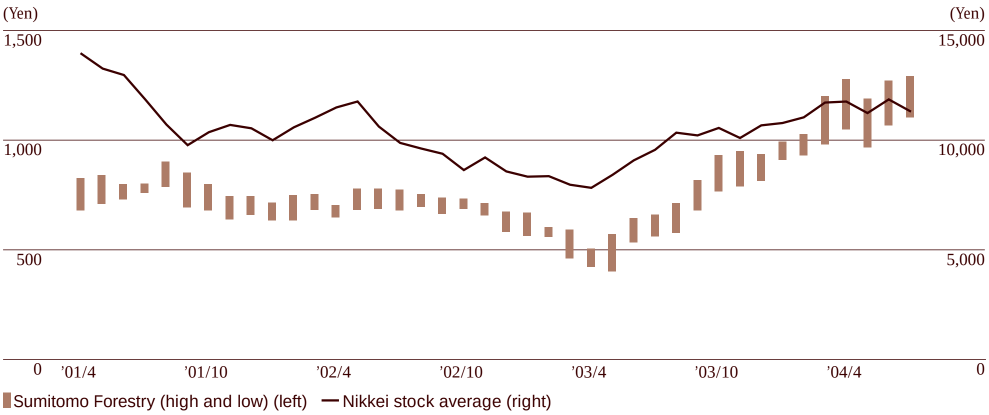
Composition of Shareholders

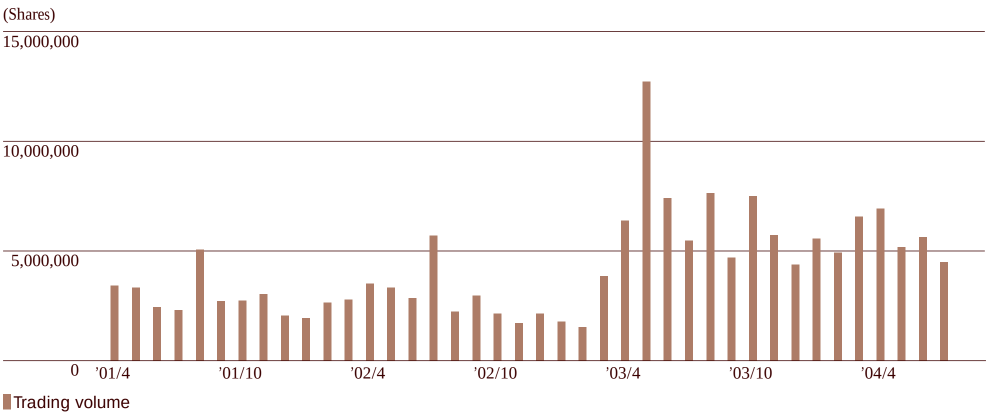


Major Shareholders

	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	11,794	6.7
Sumitomo Metal Mining Co., Ltd.	10,110	5.7
Japan Trustee Service Bank, Ltd. (trust account)	6,904	3.9
The Melon Bank Treaty Clients Omnibus	6,502	3.7
The Iyo Bank, Ltd.	5,849	3.3
Sumitomo Corporation	4,383	2.5
Sumitomo Life Insurance Company	4,227	2.4
The Hyakujushi Bank, Ltd.	4,197	2.4
Sumitomo Mitsui Banking Corporation	4,136	2.3
The Sumitomo Forestry Group Employee Shareholding Association	3,666	2.1

Stock Price and Trading Volume
(Osaka Securities Exchange)





Corporate Data

(As of March 31, 2004)

Company Name: Sumitomo Forestry Co., Ltd.

Founded: 1691

Number of Shareholders: 11,710

Incorporated: 1948

Paid-in Capital: ¥27,672 million

Number of Employees: 10,418 (consolidated)

Independent Auditors: SHIN NIHON & CO.

Head Office: Marunouchi Trust Tower North
8-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8270, Japan
Telephone: 81-3-6730-3500
Facsimile: 81-3-6730-3504
(from October 1, 2004)

* Of October 1, 2004, Sumitomo Forestry moved its registered head office to Marunouchi, Chiyoda-ku, Tokyo from Osaka and unified its headquaters functions which were previously divided to Osaka and Tokyo.

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

For further information, please contact:
Corporate Planning Division
Tel : 81-3-6730-3506 Fax: 81-3-6730-3507

SUMITOMO FORESTRY CO.,LTD.

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

URL: http://www.sfc.co.jp/