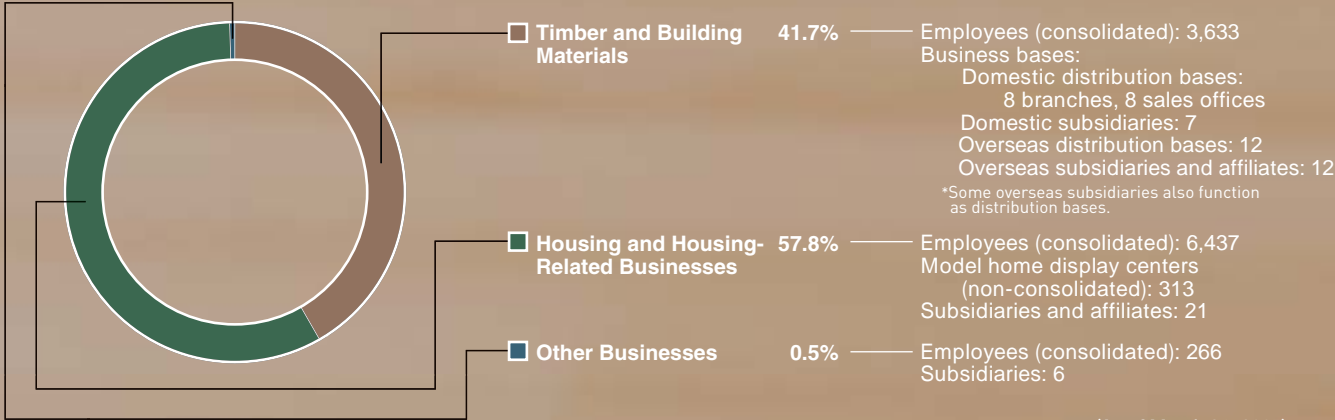




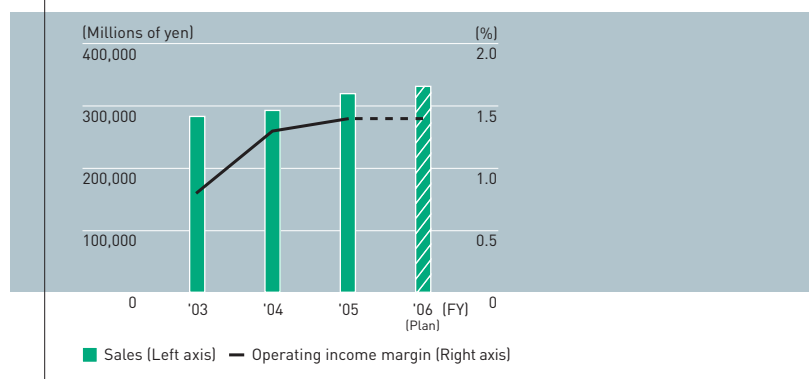
Net Sales and Contract Revenues Breakdown by Segment



(As of March 31, 2005)

Timber and Building Materials

Sales and Operating Income Margin



The Timber and Building Materials segment encompasses a wide range of areas including logs and lumber, wood-based panels, housing-use building materials, and housing equipment. It has one of the highest levels of sales in the industry. Taking advantage of the Group's global network that mainly spans the Pacific Rim, we provide high quality materials in a steady and reliable manner. At the same time, we are active in cultivating new markets for high value-added products, as well as establishing new distribution systems that suit the changing structures of the industry.

Business Environment for Fiscal 2005

The domestic market for building materials, particularly plywood, was active in the first half of fiscal 2005 owing to the demand recovery of new wooden house construction. In the second half of the year, the demand for housing equipment and metal building materials remained robust, while the overall market for timber-related products took a downturn due to a disruption in the supply-and-demand balance. Concerning timber, demand for lumber hovered around the same level as the previous fiscal year, while there was a slight increase in demand for logs.

Overseas markets for both timber and building materials saw an upward trend due to economic expansion.

Fiscal 2005 Results and Policies

Sales rose significantly due to increased volume in the distribution business, as well as positive trends in overseas markets. As a result, consolidated sales in this segment rose 9.2% over the previous fiscal year to ¥320,255 million (with external sales rising 8.9% to ¥301,696 million). Operating income increased 21.0% to ¥4,615 million, surpassing the forecasted growth. By product line, sales of timber rose 11.9% year on year to ¥92,792 million on a non-consolidated basis, while the net sales of building materials rose 6.1% to ¥185,633.

Segment Performance Highlights

(Millions of yen)	FY2003	FY2004	FY2005	FY2006 (Plan)
Sales	283,517	293,220	320,255	332,000
Operating income	2,238	3,813	4,615	4,800
Assets	145,423	146,169	157,840	-
Capital expenditures	2,627	1,723	2,949	-

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

In the timber and building materials distribution business, we completed our first round of efforts to enhance our business base for the purpose of improving competitiveness and profitability. We then put forth efforts to increase our transaction volume and boost sales, while continuing to minimize transaction risks through a reduction of the amount of inventory and improved credit management capabilities.

Main Policies

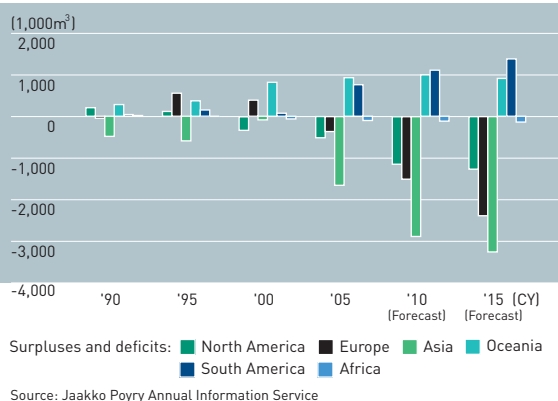
1. Enhancing building materials product lines that incorporate future market trends
2. Upgrading and expanding our manufacturing and distribution network centered on the Pacific Rim
3. Improving the efficiency and quality of our domestic distribution system

1. Enhancing Building Materials Product Lines That Incorporate Future Market Trends

—Engineered Wood Manufacturing

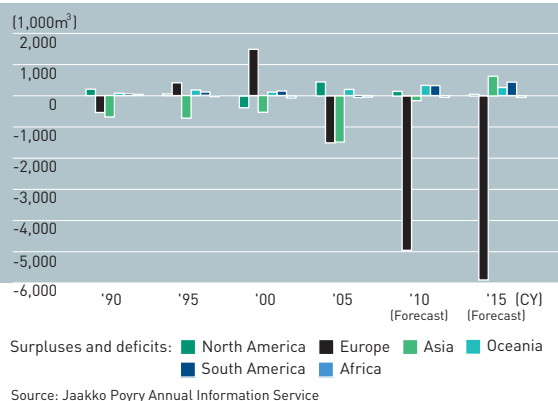
Engineered wood materials such as glued-laminated timber and wood-based panels vary very little in their quality and are functionally superior. They also allow for the usage of entire logs including those usually deemed unsuitable for

Global MDF Supply-Demand Balance



Source: Jaakko Poyry Annual Information Service

Global Particleboard Supply-Demand Balance



Source: Jaakko Poyry Annual Information Service

manufacturing wood products such as crooked or small diameter logs. Engineered woods are therefore highly regarded for their quality and environmental friendliness, and demand for them is increasing further due to the Law on Promoting Green Purchasing.

Grasping the emerging demand for engineered wood in advance, the Group started handling this type of wood material ahead of the competition. In 1984, we built a joint venture in New Zealand to work at medium-density fiberboard (MDF) manufacturing. We are currently channeling our efforts mainly to overseas production sites to increase production of plywood, as well as MDF and laminated veneer lumber (LVL) solely using planted trees, and particleboards that utilize waste wood.

MDF (Medium-Density Fiberboard)

MDF is a type of fiberboard. Fibers produced by pulping and defibrating wood chips are formed into panels. Because MDF is superior in workability, strength, and dimensional stability, its use has become increasingly popular for construction and furniture manufacturing in recent years.

Particularly in the U.S., Europe, and Asian countries such as China and South Korea, the demand for MDF exceeds the supply, and this trend is expected to accelerate in the coming years.

The Sumitomo Forestry Group recognized this need early on, and in 1986 began manufacturing MDF at New Zealand’s Nelson Pine Industries Limited (NPIL). In 2002, we acquired and added Australia’s Alpine MDF Industries Pty Ltd. (Alpine MDF) to our Group. The total annual production capacity for these two companies exceeds 500,000 m³, which is one of the highest in the Pacific Rim. We currently distribute MDF to around 150 companies, foreign and domestic, including homebuilders, building materials manufacturers, and wholesalers.

Particleboard

Particleboard is a type of wood-based panel created through the lamination of wood chips under high heat and pressure. It is versatile and widely used in such items as speaker boxes, musical instruments, and furniture.

The Sumitomo Forestry Group produces particleboards at Rimba Partikel Indonesia (RPI) located near Semarang, Java in central Indonesia, using wood waste discarded by nearby wood-panel plants. 85 percent of the particleboard manufactured by the Group is sold domestically within Indonesia, while the remainder is exported mainly to Hong Kong and Malaysia. While RPI maintains the top market share in the country, it aims to expand production further in order to fill unmet demand.

Main Types of Engineered Woods

Type	Material	Manufacturer	Main sales territory	Main uses	Position in the industry
Wood-based panels	MDF (Medium-Density Fiberboard)	Radiata pine (planted trees) NPIL Alpine MDF	Oceania, Asia (incl. Japan), U.S.	Furniture, Building fixtures, Interior decorating	Import volume: No. 1 in Japan Manufacturing volume: One of the largest in the Pacific Rim
	LVL (Laminated Veneer Lumber)	Radiata pine (planted trees) NPIL	Oceania, Japan, U.S.	Rafters, Flange for I-BEAM, Beams and floor beams, Concrete casting	—
	Particleboard	Waste wood from plywood plants RPI	Indonesia	Furniture, Wood-work, Construction	Manufacturing volume: No. 1 in Indonesia
	Plywood	Hardwood KTI	Japan, China, Europe	Wall, Floor, Interior decorating, Furniture, Fixtures	A major corporation in Indonesia (the first foreign plywood plant in Indonesia)
Glued-laminated timber	Super Cypress Japanese cypress (thinned wood) Sumitomo Forestry Co., Ltd.*	Japan	Post, Foundation	—	

* Glued-laminated timber is produced in the mills of lumber manufacturers designated by the Company.

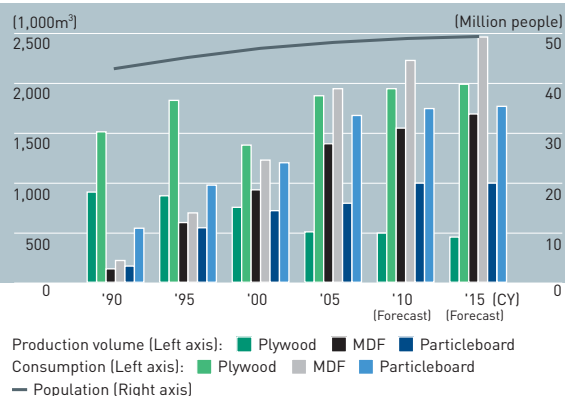
Sumitomo Forestry representative negotiating a log purchase with a broker



Structural glued-laminated timber "Super Cypress"



Production Volume and Consumption of Building Materials in South Korea



Source: Jaakko Poyry Annual Information Service

Super Cypress (Glued-Laminated Cypress Timber)

Glued-laminated timber is processed by binding and bonding sawn boards, or scantling, in a way that all the fibers are aligned parallel to one another. It is mainly used for housing construction. It retains the positive aspects of solid timber and provides uniform quality and heightened durability. A Government Housing Loan Corporation survey indicated that the percentage of glued-laminated timber used for posts in post-and-beam houses grew to 45% by 2002, from 2% in 1993.

We employ Super Cypress, which is a laminated wood panel made of thinned cypress wood, as the nationwide standard material for posts and foundations in Sumitomo Forestry's main detached housing products. It is durable, strong, as well as ant and decay-proof. Cypress has a long-standing history as high-quality wood used for housing in Japan and its use for glued-laminated timber provides further precision, sturdiness, and added value. Its durability is approximately 1.2 times greater than that of solid timber. Furthermore, Super Cypress can avoid shrinkage and deformation even after being built into a frame, by reducing moisture content by up to 15%.

2. Upgrading and Expanding Our Manufacturing and Distribution Network Centered on the Pacific Rim

—Cultivating New Markets through Business Alliances and M&A

The Group constantly strives to grasp the latest product and market trends by deploying employees all over the world. In doing so, we have been improving our ability to meet the wide-ranging market needs. Through our distribution bases in various locations, we have also been able to establish channels for purchasing materials that are difficult to acquire through regular domestic channels.

We are currently channeling our efforts into expanding our overseas distribution network mainly around the Pacific Rim through M&A and business alliances. As part of such efforts, we took a first step in advancing into the South Korean market by entering a business alliance in November 2004 with Dongwha Holdings Co., Ltd., a major construction material manufacturing group. The Dongwha Group is the leading manufacturing and distribution company in

South Korea and owns the largest particleboard plant in the country and the nation's first MDF plant. By sharing our distribution networks, we aim to reinforce our product lineup and expand our distribution routes.

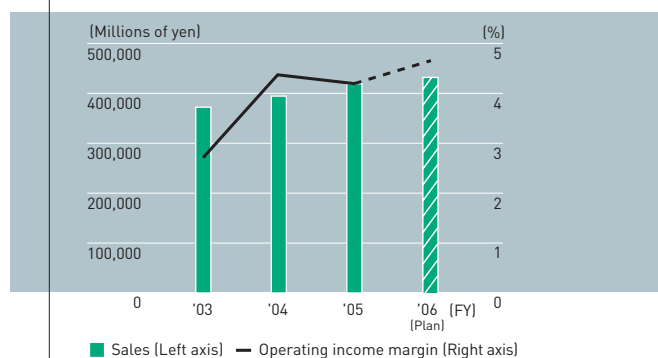
3. Improving the Efficiency and Quality of Our Domestic Distribution System

Sumitomo Forestry's Housing segment can provide feedback on end users' current needs to the Timber and Building Materials segment. We help stimulate the domestic distribution market by supplying high value-added timber and building materials that are in demand. As the timber and building materials distribution market moves toward restructuring, we are striving to increase our trading volume and expand our market share. At the same time, we are reinforcing relationships with our main business partners. To reduce transaction risks, we are practicing thorough inventory and credit management.

As an endeavor to streamline our domestic distribution market, we have been developing a network of builders. The INOS Group Business, which is in its twelfth year, is a network of over 300 local high-level construction companies, assisting member businesses in their restructuring by providing them with the latest construction know-how and high value-added materials. This allows us to increase our building materials sales and reduce risks in the area of credit management, while the builders are able to secure their desired quality and quantity of materials, and receive support in sales and after-sales maintenance, thereby creating a true win-win situation.

Housing and Housing-Related Businesses

Sales and Operating Income Margin



As a leader in custom-built wooden housing, the Housing and Housing-Related Businesses segment provides high-quality wood housing using our own unique technology. By having the Group engage in the entire process from materials procurement, design, and construction to aftercare service, we can provide thorough quality and performance management. We also strive to utilize such comprehensive strength to expand our peripheral businesses such as the collective housing and housing stock businesses.

Business Environment for Fiscal 2005

While the number of new housing starts in Japan increased 1.7% from the previous fiscal year, the market for owner-occupied housing, in which our business is highly involved, fell by 1.6%. However, the reduction rate of post-and-beam houses was smaller than the overall market for owner-occupied housing. On the other hand, the collective housing market grew for the second consecutive year, spurred by increased renting in urban areas and a rebound in the number of people choosing to live in city centers. In the housing stock-related market (remodeling and real estate brokerage), demand has been on the rise. This is due to diversified objectives for relocation and remodeling, such as changes in people's life stages and the desire for improved living environments.

Fiscal 2005 Results and Policies

In the Housing and Housing-Related Businesses segment, the number of completed units remained at around the same level as the previous fiscal year. However, our marketing efforts brought in orders for additional construction, raising the price per land area. As a result, sales for this segment rose 6.3% over the previous fiscal year to ¥418,313 million (with external sales rising 6.2% to ¥418,031 million). On the other hand, increase in operating income remained minimal at 2.2%, increasing to ¥17,530 million. This was due to the expenses that were needed to assist customers whose homes were damaged by nat-

ural disasters such as earthquakes and storms, which occurred frequently during the year, as well as prior investments in recruiting new employees to adapt to the Group's business expansion.

By product line on a non-consolidated basis, the sales of detached houses edged up by 1.6% year on year to ¥302,872 million. In the business of new house construction, we began efforts to expand our share of owner-occupied housing in the Tokyo area. We continued to reduce production costs by ¥3.7 billion as a way to enhance our business structure. Under a policy of concentrating our business resources in growth areas, we withdrew from the wooden component housing business.

In the collective housing business (parent company), we completed the drastically increased construction orders we received last fiscal year. As a result, the sales rose significantly by 15.4% to ¥16,703 million. We also enhanced our marketing capabilities by developing a system for efficiently gathering real estate information and improving our ability to offer more solutions to our customers. In particular, our solution providing ability was reinforced by jointly establishing a seamless service system with Sun Step Co., Ltd., a rental property management company.

In the housing stock business, the remodeling company Sumitomo Forestry Home Tech. Co., Ltd. acquired a number of new customers, raising its sales by 21.1% since the previous fiscal year to ¥25,418 million. However, because of a delay in

Segment Performance Highlights

(Millions of yen)	FY2003	FY2004	FY2005	FY2006 (Plan)
Sales	370,421	393,616	418,313	431,000
Operating income	9,920	17,150	17,530	20,000
Assets	133,010	108,160	108,705	-
Capital expenditures	1,417	3,162	4,403	-

Notes: 1. In fiscal 2004, Sumitomo Forestry Home Service Co., Ltd. was transferred from Other Businesses to Housing and Housing-Related Businesses.
2. The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

GODAI One's Story (Exterior)



Serene Japanese-Style Room



GODAI Navia (Exterior)



human resource development and the training of a large number of personnel hired to meet the demands of increased orders, profitability took a downturn. Overall sales of the real estate distribution company Sumitomo Forestry Home Service Co., Ltd. rose only slightly by 8.4% to ¥6,616 million. However, the company's operating income increased greatly by 51.5% due to a reduction in operating expenses resulting from the acquisition of customers over the Internet and other related factors.

Main Policies

1. Expanding our market share in Tokyo and other major urban areas
2. Strengthening our product lineup
3. Enhancing our marketing capabilities

1. Expanding Our Market Share in Tokyo and Other Major Urban Areas

—Concentrating Management Resources in Sectors and Regions with High Demand

In the new house construction business, we aim to attain the top share in owner-occupied houses in the Tokyo area within two years. As a way to accelerate this plan, we are working to generate further demand by enhancing our real estate strategy to secure lands for built-for-sale houses. After achieving our goal in Tokyo, we plan to expand our target areas to other major cities.

In the collective housing business, we will make up-front investments in the form of increased personnel resources, business bases, and promotional expenses. At the same time, we will strive to enhance our cost competitiveness and profitabil-

ity. We will increase orders for wooden rental apartments from the current 30% to 50% level, taking advantage of our cost-reduced house construction knowledge gained through our experience in the detached housing business.

2. Strengthening Our Product Lineup

—Reinforcing Products for Growth Markets While Maintaining Our Mid- to High-End Brand Image

While our housing products are already based on free design, we will continuously work on improving our consulting capabilities in order to enhance customer satisfaction, and on solidifying our brand image among mid- to high-end customers. At the same time, we will meet demand by closely monitoring market trends and working flexibly to implement our product strategy in accordance with customer demographics and geographical areas. In fiscal 2005, we channeled our efforts particularly into the development of products designed for first-time buyers and three-story buildings for urban areas, to cultivate the expanding market. In fiscal 2006, which will mark the 30th anniversary of our custom-built housing business, we plan to launch products that will culminate our efforts thus far.

Products Designed for Second-Time Homebuyers and Feature Products

Concerning products designed for second-time homebuyers, which are Sumitomo Forestry's mainstay products, we are enhancing the degree of freedom in the design process, options we can offer in terms of wood used as an interior material, and the use of open space. Going forward, we will continue to promote and enhance the lineup of our GODAI series as our main brand.

Main Lineup of Sumitomo Forestry's Housing Products

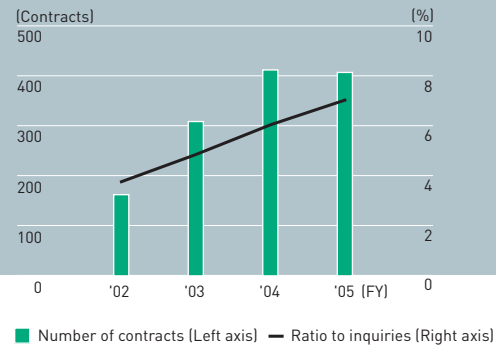
Product	Product name	Features	Sales ratio (%) *
GODAI	One's Story	Two-story mainstay product	43
	One's Story Ground Life	One-story house	
	Waraku	Authentic Japanese-style house	
	Navia	For first-time homebuyers	
rialt		For first-time homebuyers	42
Relaxia		Urban-style interior and exterior	3
Baum		Pre-designed	5
Proudio	MB (Multi-balance)	Three-story, post-and-beam wooden structure	3
	BF (Big Frame)	Three-story, wooden frame structure	
Others	Regional products, etc.		4

* Percentages of fiscal 2005 sales.

Proudio-BF (Exterior)



Proudio-BF (Frame)


Number of Contracts Made via the Internet and Ratio to Inquiries (New Detached Housing: Non-Consolidated)


Since 2002, we have been selling our feature product, Super Natural series. These are houses designed with a high priority on the feel of wood as an interior material, in a limited quantity of 300 to 500 per year. This series places particular emphasis on the quality of materials, which are purchased from various parts of the world. This unique product line improves our brand value and can be offered only by Sumitomo Forestry, which knows the characteristics of all trees according to where they are grown, and has its own global purchasing network.

Products Designed for First-Time Homebuyers

Children of baby boomers are reaching home buying age, emerging as the main presence in the housing market. We have been selling the rialt series since August 2002. It is popular among customers in their 20s and 30s, who have particular preferences regarding design and lifestyle. The rialt series, which was launched in August 2002, accounted for nearly 50% of all ordered houses among Sumitomo Forestry's Homes. In October 2004, we launched as the second series of products aimed at first-time homebuyers, the GODAI Navia. To enable potential buyers to easily visualize the house in which they wish to live, this product series presents several patterns for the exterior, interior, and floor plans. The GODAI Navia is the successor to the rialt series and orders have been steadily increasing.

Three-Story Housing

Offering plans for three-story housing will heighten our competitiveness in the Tokyo metropolitan area, which is full of small, narrow lots. We have thus far offered the Proudio-MB based on a post-and-beam architectural method. It is a plan that takes advantage of our free design ability to make design adjustments down to a centimeter to fit a limited amount of land space. However, this method needs many structural posts, making it difficult to create large, open spaces within the structure. In fiscal 2005, we developed a new Big Frame construction method based on our unique wooden frame structure, and launched our new product, Proudio-BF. The use of one large post prevents the showing of other posts within a room and allows for a dynamic use of space with vast, open spaces, large openings, and a wide cantilever terrace. It also provides freedom to choose the location of posts for each floor, allowing for more freedom in creating the overall floor plan.

3. Enhancing Our Marketing Capabilities

—Active Use of IT

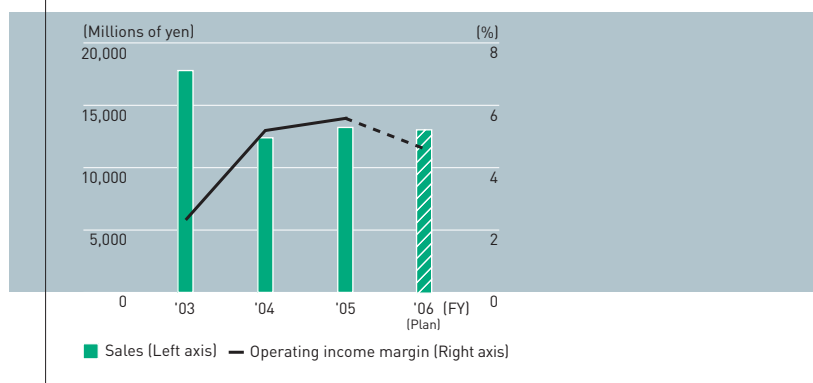
Sumitomo Forestry's bases for marketing are model home display centers and events like "Sumai Haku" housing fairs, where visitors can actually "touch the wood." In fiscal 2003, we reviewed our area strategy and consolidated our display venues. However, since then, we have built eight new venues only in areas with potential high cost benefits, expanding our total number of venues to 313. Along with this, we are expanding our use of IT, which had been used mainly in construction sites to shorten the construction period and reduce construction costs. IT is now being utilized also in areas of marketing to attract potential customers to model home display centers and various events.

In our new detached housing business, we are expanding opportunities to connect with customers by distributing e-mail newsletters and upgrading our website. In our e-mail newsletters, we include regional and other information to draw customer attention. We also try to establish and maintain mutual communication with customers by letting individual customers select the type of information they will receive. In addition to our website designed for the general public, we have also set up a site designed especially for past customers. Here, we provide consultation service over the Internet on maintenance, repair, remodeling, and building expansion. As a way to attract visitors to model home display centers, sites for regional events, and showrooms, we also offer a mobile phone website, enabling customers to search for such locations more conveniently.

In the real estate transaction business, we have introduced an information service site, "Suminavi," which incorporates a weblog system. The pages maintained by each sales representative are connected to the individual pages of potential buyers, which allows for one-on-one online business transactions to take place, and expands the range of information that can be provided. Before the launch of the "Suminavi," our rate of sales concluded over the Internet was less than 3% for real estate transactions. Since fiscal 2005, the rate has risen to 37%. We plan to further enhance the content of the site, and strive to increase the rate and number of sales agreements.

Other Businesses

Sales and Operating Income Margin



In the Other Businesses segment, the Sumitomo Forestry Group provides a wide range of services to support people's affluent lifestyles and communities. Some examples are agribusiness, which considers farming from the viewpoint of the environment and recycling, and the operation of golf courses. The Group also provides services needed in the latest business scenes such as general insurance agency operations, computer system development, and worker dispatching services.

Review of Fiscal 2005 Operations

Sales in the Other Businesses segment rose 6.8% over the previous fiscal year to ¥13,185 million. This was heavily due to the fact that Sumirin Enterprises, Ltd., which provides services mainly in insurance agency and leasing operations, had successful results in the sale of fire insurance designed for housing customers. In addition to increased earnings, Sumirin Enterprises, Ltd. as well as Sumirin Agro-Products Co., Ltd., which produces and sells horticultural-use potting soil, various flowers, and ornamental plants, improved its earning structure. As a result, operating income showed a higher growth rate, rising by 14.6% to ¥738 million.

Policies and Prospects for Fiscal 2006 and Beyond

Aside from Sumirin Enterprises, Ltd. and Sumirin Agro-Products Co., Ltd., the segment's services are aimed mainly toward the Group. Therefore, in this segment, we will continue to work on facilitating business activities within the Group and developing a system that will increase profitability for the entire Group. Sumirin Agro-Products Co., Ltd. will collaborate with the Group's Tsukuba Research Institute and put their research results to practical and commercial use to generate further earning power.

Segment Performance Highlights

(Millions of yen)	FY2003	FY2004	FY2005	FY2006 (Plan)
Sales	17,882	12,350	13,185	13,000
Operating income	415	644	738	600
Assets	31,934	7,893	8,650	-
Capital expenditures	581	999	754	-

Notes: 1. In fiscal 2004, Sumitomo Forestry Home Service Co., Ltd. was transferred from Other Businesses to Housing and Housing-Related Businesses.
2. The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.