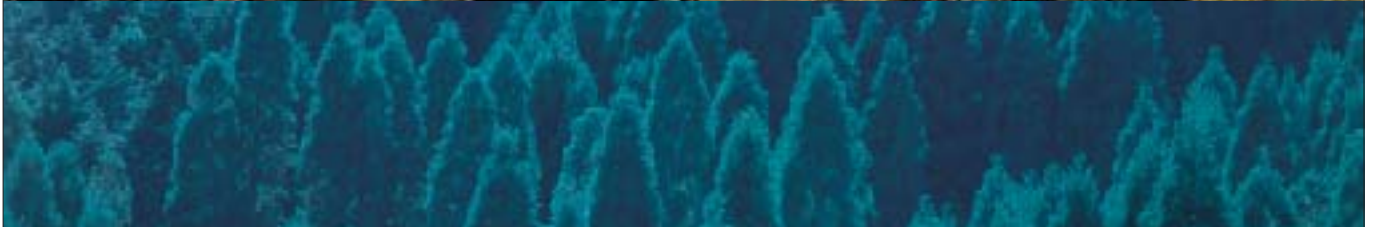


Annual Report 2004

Year Ended March 31, 2004



Regaining Our Growth Momentum



Profile

Since its establishment in 1691, Sumitomo Forestry Co., Ltd. has accumulated a rich knowledge of wood and wood products based on an underlying business philosophy of sustainable forestry. Over the centuries, we have extended our activities to a wide variety of timber-related businesses from upstream to downstream, including forestry, supplying and manufacturing timber and building materials, housing and housing-related businesses, and the environmental conservation activities. Focusing today on the housing business, we offer a broad range of products and services suited to individual customer lifestyles, drawing both on our proprietary know-how and on synergies deriving from the various strengths of the Sumitomo Forestry Group. In all of our activities, we strive to contribute to society and maximize our corporate value.

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Forward-Looking Statements

Statements in this annual report with respect to Sumitomo Forestry's plans, strategies, and objectives as well as other statements that are not historical facts are forward-looking statements, based on management's assumptions and beliefs formed in the light of information available as of the production of this report. Actual results may differ from those discussed in these forward-looking statements owing to the impact of various factors, including but not limited to changes in the business environment, general economic conditions, and customer preferences.

The front cover is designed using pictures of Sumitomo Forestry-owned forests.

Financial Highlights

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

	Millions of yen (Unless otherwise specified)					Thousands of U.S. dollars*1 (Unless otherwise specified)
	2004	2003	2002	2001	2000	2004
For the year:						
Net sales and contract revenues	¥ 673,778	¥ 645,100	¥ 644,730	¥ 682,375	¥ 699,594	\$6,356,396
Operating income	17,576	8,772	3,040	15,999	13,549	165,811
Recurring income*2	17,073	9,721	3,731	16,908	12,541	161,066
Net income (loss)	9,869	(15,439)	465	6,994	5,708	93,103
At year-end:						
Total assets	369,754	357,322	365,531	371,102	360,935	3,488,245
Total interest-bearing debt	19,928	16,497	18,124	24,517	35,720	188,000
Total Shareholders' equity	146,268	129,727	147,440	150,979	144,914	1,379,886
Per share:						
	Yen					U.S. dollars*1
Net income (loss)	¥ 55.81	¥ (87.53)	¥ 2.64	¥ 39.64	¥ 32.36	\$ 0.52
Shareholders' equity	830.50	736.42	835.07	854.91	821.61	7.83
Cash dividends	13.00	10.00	10.00	10.00	10.00	0.12
Ratio:						
Operating income margin	2.6%	1.4%	0.5%	2.3%	1.9%	—
Return on equity (ROE)*3	7.2%	(11.1%)	0.3%	4.7%	4.0%	—
Shareholders' equity ratio	39.6%	36.3%	40.3%	40.7%	40.1%	—

*1: The Japanese yen amounts for the year ended March 31, 2004 have been translated into U.S. dollar amounts, for the reader's convenience only, at the rate of ¥106.00=U.S.\$1.00.

*2: Recurring income = operating income + non-operating income - non-operating expenses

Major non-operating income includes interest income, purchase discounts, dividends income, exchange gains, miscellaneous gains, and other income generated from normal business activity. Major 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: ROE is calculated using the simple average of beginning and end of term balance sheet figures.

To Our Shareholders and Customers



Ryu Yano
President and Chief Executive Officer

Business Environment in Fiscal 2004 (April 2003-March 2004)

In fiscal 2004, ended March 31, 2004, the Japanese economy showed signs of recovery, with real GDP growing for the second consecutive year. It is likely to be some time, however, before clear improvements in employment conditions and personal spending emerge, providing a full sense of recovery.

The housing industry benefited from the expiration of a housing loan-related tax break tentatively set for at the end of December 2003, which sparked a surge in home purchases. For the fiscal period as a whole, however, consumer demand for housing remained lackluster amid lingering concerns about job and household income stability. The

number of new housing starts during the period improved 2.5% year on year, to 1,173 thousand units. Of this total, owner-occupied housing starts were up 2.1%, to 373 thousand units. While this marked the first increase in four years for both of these statistics, the growth was at a low level. The timber and building materials markets, on the other hand, remained relatively robust. Although we saw a few negative factors, including temporary weakness prior to the amendment of the Building Standards Law effective July 2003 as well as a spike in maritime freight costs, these were more than offset by such positive factors as the aforementioned surge in home purchases related to the planned expiration of a housing-related tax break and steady expansion in the home remodeling market.

Fiscal 2004 Consolidated Business Results: Healthy Increase in Sales and Sharp Rise in Profitability

In this business environment, Sumitomo Forestry's net sales and contract revenues increased 4.4% compared with the previous fiscal year, to ¥673.8 billion. Looking at results by segment, sales and contract revenues of the Housing and Housing-Related Businesses segment were up 6.4%, to ¥393.5 billion. This segment was able to achieve a sales increase thanks largely to two factors: additional sales resulting from the consolidation of Sun Step Co., Ltd., and a strong performance by consolidated subsidiary Sumitomo Forestry Home Tech. Co., Ltd., stemming from improved home remodeling demand. In the Timber and Building Materials segment, sales rose 4.1% year on year, to ¥277.0 billion.

Operating income surged to ¥17.6 billion, a 100.4% increase over the previous fiscal year. Recurring income similarly expanded, reaching ¥17.1 billion, a 75.6% rise and a new five-year high, exceeding the ¥16.9 billion recorded in fiscal 2001. This strong performance was attributable to a ¥7.2 billion reduction in housing production costs, well over our initial target of ¥5.0 billion, as well as to higher income at some subsidiaries. Since April 2002, the Company has focused on streamlining housing production costs and reducing selling, general and administrative (SG&A) expenses. Our cost-reduction efforts bore fruit during the period: the cost-to-sales ratio declined 0.9 percentage point year on year and the SG&A ratio showed a 0.3-percentage-point contraction.

A revision to the retirement benefits accounting system, which reduced employees' retirement benefit obligations, coupled with an improved investing environment for our pension funds, enabled us to post an extraordinary gain of ¥13.9 billion for the fiscal year under review. At the same time, we posted extraordinary losses of ¥5.9 billion mainly owing to our advanced application of fixed asset impairment accounting. As a result, net income for the period was ¥9.8 billion, up ¥25.3 billion over the previous year, when we declared a significant extraordinary loss in an effort to improve our financial position. We raised cash dividends per share for the full fiscal year to ¥13.0, compared with



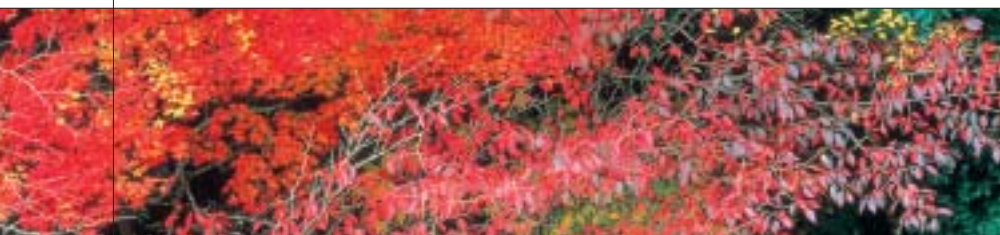
¥10.0 for fiscal 2003. While still maintaining our conventional stance not to fluctuate cash dividends, from fiscal 2004 we started to more widely reflect profitability achievement of the year in determination of cash dividends.

In addition to implementing measures aimed at improving profitability, we continued efforts designed to further buttress our financial position and reduce its susceptibility to changes in the economic environment. Specifically, we introduced cash balance pension plans whereby the balance of retirement benefits and pensions varies in line with market interest rates, effectively reducing employees' retirement benefit obligations. As a result, accrued employees' retirement benefit obligations declined ¥12.7 billion.

As part of our three-year Management Restructuring Plan, we reformed our personnel system during fiscal 2004 by adopting a job grading system, following on the previous fiscal year's introduction of an executive officer system. These consecutive reforms were implemented with the aims of accelerating the business decision-making process and clarifying business responsibility as well as enhancing each employee's awareness of his or her specific job-related objectives and performance, in line with our goal of building an organization capable of continuous improvements in business performance. We believe that these reforms have succeeded in fostering a spirit of innovation among all employees of Sumitomo Forestry. To ensure the Group's success in the competitive housing-related market and to attain the firm position as an excellent company, I believe that each member of the Group must enthusiastically implement his or her assignment with a spirit of innovation and thus be a driving force for positive change.

Outlook for Fiscal 2005: Implementing Both "Defense and Offense" Strategies

In fiscal 2005, ending March 31, 2005, we are focusing not



major cities, with a specific goal of gaining the No. 1 position among providers of owner-occupied housing in the Tokyo metropolitan area. To achieve this goal, we focus on increas-

only on ensuring the accomplishment of the current Management Restructuring Plan, but also on gaining a footing for aggressive business development starting from fiscal 2006. Against the backdrop of Japan's increasingly aging society, the number of new housing starts is expected to remain flat at the one-million-unit level per year. In other words, we cannot expect any further quantitative expansion of the domestic housing market. Considering the reality of this mature market, we are committed to continue steady improvements in our profit margin and develop new markets to achieve further growth.

Regarding the enhancement of profitability, our intention is to continue to reform our profit structure so that we are able to realize steady earnings on our current annual sales level of 10,000 housing units. We aim to cut our housing production costs by ¥4.5 billion in fiscal 2005, thereby achieving a ¥16.4 billion cumulative cost cut during the Plan's three-year period, exceeding our original target by ¥1.4 billion.

In terms of developing new markets, we are accelerating activities directed at three new core businesses: collective housing business, housing stock business, and overseas operations. These will be our new footholds in growth from fiscal 2006. At the same time, we are making strategic investments to reinforce existing core businesses.

Strategies for Existing Core Businesses

In Housing and Housing-Related Businesses, we are strengthening our operations by more thoroughly incorporating our customer-first policy. For example, this is embodied in such services as our Long Support System, introduced in fiscal 2003, which guarantees customer support for 60 years from the time of a home purchase. In our product development activities, we will upgrade our portfolio of unique, quality offerings and further explore the potential of wooden houses in order to better meet diversifying and sophisticated customer needs. Our key marketing strategy is to expand housing orders in major urban areas. Accordingly, we are redoubling our marketing efforts in

ing and reconstructing our model-home displays, buttressing our sales force, and intensifying advertising and other promotional activities.

Regarding Timber and Building Materials businesses, we established the Business Administrative Division within the Business Headquarters in April 2004 with the goal of revamping our marketing strategies in response to the recent market reorganization. Amid an accelerating industry-wide reshuffle, we intend to take this opportunity as the market leader to further expand our business capacity and strengthen our business foundations by leveraging business and capital partnerships and opening up new sales channels via strategic M&A activities.

Fostering New Core Businesses

By intensively allocating management resources to our three new core businesses of collective housing, housing stock, and overseas operations, our Group is working to nurture its next generation of earnings drivers.

In the collective housing business, we recently purchased 63% of the outstanding shares of Sun Step Co., Ltd., Japan's ninth largest rental property management company with approximately 20,000 rental housing units under management. This acquisition has enabled us to offer integrated services ranging from construction to rental management. At the same time, it has expanded our marketing and sales capacities. We are advancing fully into the collective housing market, which continues to show stable growth especially in urban areas, by applying our design expertise to the creation of high-value-added collective housing. To support our forward advance, we are fostering personnel with strong consulting capabilities on land use while at the same time strengthening our information-gathering capacity, another key to success in this business.

The home remodeling business, a component of the housing stock business, has been on an upward trend in recent years, reflecting both the protracted period of deflation and the increasing longevity of existing housing stock. The

home remodeling market is expected to grow to a size of ¥10 trillion annually by 2020. Sumitomo Forestry Home Tech. Co., Ltd., our subsidiary in charge of this business, has tripled the number of orders received to 9,207 over the last five years. Sumitomo Forestry Home Tech.'s sales figures have shown steady growth as well, reaching ¥20.9 billion in fiscal 2004, up 22% from ¥17.1 billion from the previous fiscal year. We have already established a nationwide sales network for the home remodeling business, nearly doubling the number of sales offices over the past five years, to 44. While we remain among the second-tier companies in the home remodeling industry, we are keenly focused on attaining a spot among the market leaders, whose sales are currently at the ¥30.0 billion level. To reach this goal as quickly as possible, we are capitalizing on our strengths in design and large-scale remodeling work, backed by an extremely high percentage of qualified architects among our sales personnel.

In the real estate brokerage business, the second component of our housing stock business, Sumitomo Forestry Home Service Co., Ltd. moved its headquarters from Osaka to Tokyo as the first step in rebuilding a new operational base in Japan's largest metropolitan market. In fiscal 2005, six sales offices will be added, bringing the total to 52 offices. Although the number of lease brokerage transactions has remained almost unchanged over the past five years, sales brokerage transactions have increased approximately 70% over the same period. In fiscal 2005, we intend to substantially increase our number of transactions in both the sales and lease brokerage businesses based on our reformed business infrastructure.

In overseas operations, we are expanding sales volume of wood-based panels and building materials, particularly in Pacific Rim countries, including Japan, where we are able to take full advantage of our overseas manufacturing bases. To accelerate expansion of our overseas operations, we established the International Business Headquarters in April 2004. For fiscal 2005, we aim to achieve a simple sum of recurring income of ¥1.3 billion at our overseas manufacturing subsidiaries and affiliates by revamping production processes and strengthening marketing capacity. In addition

to the manufacture of wood-based panels and building materials, we will move ahead to establish a full-scale operation in the overseas housing business. Our pilot North American Housing Project, which kicked off in autumn 2002 in the suburbs of Seattle, Washington, reached a successful completion in fiscal 2004 paving the way for the commencement of marketing of built-for-sale houses. Meanwhile, we have started drawing up a business strategy for the Chinese market. We are, thus, expanding our overseas activities in terms of both business fields and geographic areas.

Maximizing Our Corporate Value

For the past two years, we have focused on strengthening our overall earnings power and business foundations by substantially reducing housing production and SG&A costs and by launching high-value-added products and services. Now, we are turning our sights to more aggressive business development. Our strategies moving forward will be based on further implementing our customer-first policy and enhancing the brand value of Sumitomo Forestry's Home by emphasizing those attributes that differentiate us from the competition. By carrying out these strategies, we intend to create a win-win business model whereby we provide highly comfortable housing and personalized services to our customers, and competitive investment value to our shareholders. It is my hope that you have gained a clearer picture of our business strategies. I thank you sincerely for your understanding and support of our business activities to date, and I humbly request your continued support as Sumitomo Forestry moves into the future.



Ryu Yano
President and Chief Executive Officer

Three-Year Management Restructuring Plan Covering Fiscal 2003 - Fiscal 2005

To increase its earnings power amid an unfavorable business environment, the Sumitomo Forestry Group formulated a seven-point Management Restructuring Plan at the end of fiscal 2002. The Group's efforts in the last two years have yielded steady results. Of particular note is the fact that we reduced housing production costs by ¥4.7 billion in fiscal 2003, and in fiscal 2004 we achieved a ¥7.2 billion reduction, exceeding the annual target of a ¥5.0 billion reduction. In fiscal 2005, the final year of the Plan, we are striving to continue reducing housing production costs, and are working to strengthen our earnings structure further. In addition, in preparation for taking a more aggressive management stance in fiscal 2006 and beyond, we are endeavoring to accelerate the development of new core businesses as well as revamp our existing businesses.

State of Progress After Two Years

Item	State of Progress
1. Reforming the Management Structure	<p>June 2002: Executive officer system introduced This move was intended to separate decision-making and supervisory functions from executive functions, strengthen supervisory functions on business execution, and clarify responsibility for business execution.</p> <p>June 2002: The Board of Directors reformed The number of directors was reduced from 18 to seven as a means of increasing the board's vitality and speeding up procedures.</p>
2. Revamping the Headquarters Organization	<p>April 2002: Budget and earnings management duties of Finance and Accounting Division transferred to Corporate Planning Division This created a system for setting policy in a unified manner, from basic budget allocation policy to earnings management and IR policy. It also strengthened the headquarters' strategy formation capabilities and business division supervisory and control functions.</p> <p>April 2002: Risk Management Committee established December 2002: Compliance Counter* established</p>
3. Reducing Housing Production Costs	<p>Working to reduce housing production costs by maximizing cost management and streamlining construction processes, with a goal to lower costs by ¥5.0 billion per year and ¥15.0 billion over three years.</p> <ul style="list-style-type: none"> • Costs decreased by ¥4.7 billion in fiscal 2003 and ¥7.2 billion in fiscal 2004. • Operating income margin increased from 1.4% in fiscal 2002 to 2.6% in fiscal 2004. • We plan to lower costs by ¥4.5 billion in fiscal 2005, which would result in a three-year reduction of ¥16.4 billion.
4. Reducing Operating Expenses	<p>Endeavoring to streamline SG&A expenses at the parent company.</p> <ul style="list-style-type: none"> • We introduced a cash balance plan, in which retirement benefits and pension funds earn in line with market interest rates, thereby reducing interest rate risk. • We worked to minimize the risk related to personnel expenses by revising our personnel system and introducing a job grade system. • We increased the efficiency of ordering and billing operations by introducing the Rakutto web-based EDI system.
5. Strengthening of Housing Product Development	<p>Striving to enhance our responsiveness to changes in the operating environment and customer needs and to accurately reflect customer preferences in the development of new products.</p> <p>April 2002: Product Development Division established August 2002: Rialt launched, aiming at first-time homebuyers in their 20s and 30s (The Rialt has grown into a hit product, accounting for 44% of total housing orders in fiscal 2004) Strategic products introduced, bringing out the best in characteristics of wood —Super Natural Teak launched in fiscal 2004, as part of the Super Natural series which has introduced a new product once a year since fiscal 2003.</p>
6. Strengthening of the Collective Housing Business	<p>Working to establish a system for flexibly providing solutions matching construction site conditions including the selection of construction method (reinforced concrete structures or the two-by-four). We are also working to differentiate our products and strengthen our marketing capabilities.</p> <p>August 2003: Sun Step Co., Ltd., a real estate rental management company acquired. By integrating rental management and marketing, we intend to increase orders. We are also pursuing synergies such as referral business and product development that incorporates customer data.</p> <p>November 2003: Satellite offices established inside or close to the branch offices of our Housing Headquarters. By enabling a close exchange of customer data with the Housing Headquarters, we intend to increase business information volume and orders.</p>
7. Accelerating the Development of New Core Businesses	<p>Focusing on increasing the profitability of overseas operations and housing stock operations, which we view as core next-generation businesses together with the collective housing business.</p> <ul style="list-style-type: none"> • An Australian MDF manufacturing company acquired • Housing business launched in North America. • A feasibility study in preparation for entering the Chinese market started • Number of business offices increased in our remodeling business and our real estate brokerage business <ul style="list-style-type: none"> — Remodeling: From 34 offices in fiscal 2002 to 44 in fiscal 2004 — Real estate: From 43 offices in fiscal 2002 to 46 in fiscal 2004 (and an increase to 52 planned for fiscal 2005).

* Compliance Counter serves as the primary contact point for employees reporting illegal acts and ethical misconducts without violating their privacy.

Progress in Strengthening Our Earnings Structure

Housing Production Cost Reduction

With strengthening our profitability as a top priority, the Plan calls for housing production costs to be reduced ¥5.0 billion annually and ¥15.0 billion over the three years of the Plan.

Even by using pre-cut components, the post-and-beam architectural method still has the disadvantage of taking more effort and time compared to prefabricated home construction. With the goal of reducing the average construction period by ten days and housing production costs by 10%, we launched the Network Aided Construction Support System (NACSS) on a nationwide basis in May 2002. NACSS makes our housing production more efficient through management of construction processes on a daily basis.

NACSS enables integrated management of data from the more than a dozen companies that typically are involved in the construction process of a house, including data on the type of work being carried out and the status of various

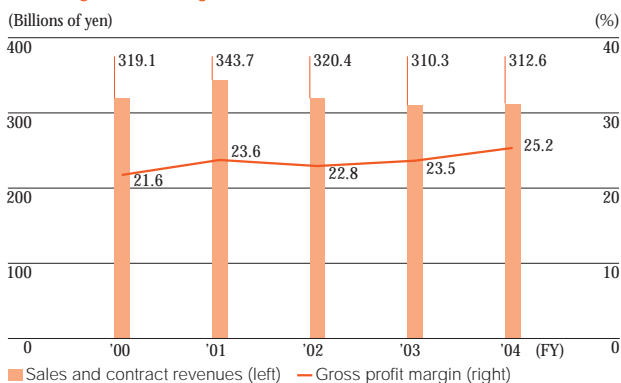
processes. NACSS sends an e-mail to the cellular phones of each construction chief to confirm the progress of work and details about the job, and based on their feedback we plan the next phase of work and order the necessary compo-



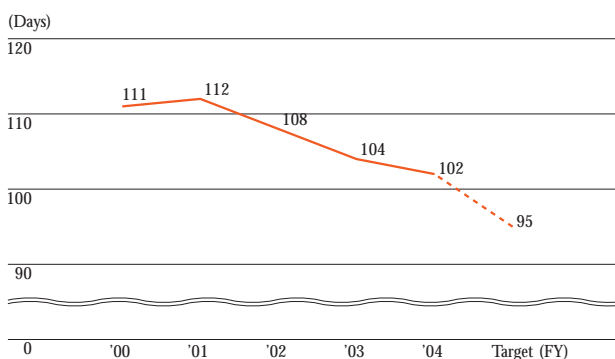
nents. This enables work to be carried out far more efficiently.

In fiscal 2001 the average construction period was 112 days, but this has been reduced to 102 days at present, and we intend to lower this further to 95 days. We lowered housing production costs by ¥4.7 billion in fiscal 2003, the initial year of the Plan, and by an additional ¥7.2 billion in fiscal 2004, exceeding the annual target of ¥5.0 billion. As a result, we have been able to reward customers by offering better products without raising prices, and at the same time have increased our gross profit margin of Housing and Housing-Related Businesses segment by 2.4 percentage points from fiscal 2002. We plan to lower housing production costs by another ¥4.5 billion in fiscal 2005, which would result in a three-year reduction of ¥16.4 billion, exceeding the target for the three-year period by ¥1.4 billion.

Sales and Contract Revenues and Gross Profit Margin (Housing and Housing-Related Businesses, Non-Consolidated)



Average Construction Period Per Cutom-Built House



Operating Expense Reduction

In fiscal 2004, we were able to reduce non-consolidated sales, general and administrative (SG&A) expenses by ¥1.4 billion year on year by controlling expenses related to rent, sales, and advertising and promotion. Although SG&A expenses increased by ¥2.3 billion at the consolidated level, this was in line with our initial projections because of the planned investments in new core businesses and in newly consolidated subsidiaries. Indeed, we were able to steadily reduce both the cost of sales and daily expenses, achieving an operating income margin of 2.6% in fiscal 2004 with an improvement of 2.1 percentage points from fiscal 2002. As a result of strengthening the earnings structures of all Group companies, in fiscal 2004 we recorded consolidated operating income of ¥17,576 million, an increase of 478.2% from fiscal 2002, and return on equity (ROE) recovered to 7.2%.

In fiscal 2005, the final year of the Plan, we will endeavor to manage our financial resources from both a “defensive” and an “offensive” perspective. We not only continue to strengthen our existing business base, but have embarked

on preparations for a major leap forward in fiscal 2006 and beyond. We will carry out measures to increase house orders in the Tokyo metropolitan area and pursue policies aimed at developing our new core businesses (the collective

housing business, the housing stock business, and overseas operations). For that reason, we plan to increase strategic spending aimed at expanding operations and we expect consolidated SG&A expenses to increase ¥3.8 billion year on year in fiscal 2005.

Progress in Fortifying Our Financial Structure

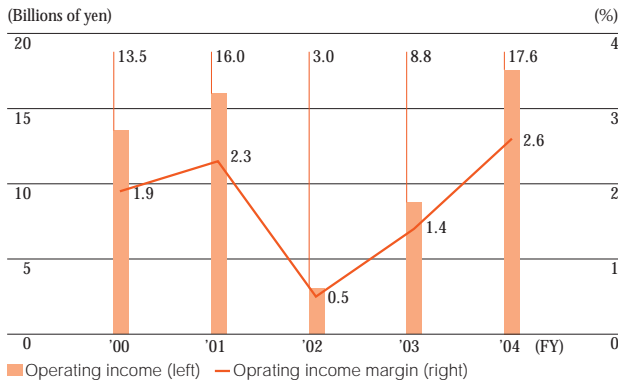
To cope with uncertainties in the business environment and to further strengthen our corporate structure, we must fortify our financial structure while improving profitability. It is thus essential that we get rid of any burdensome underperforming assets, and since fiscal 2003 we have taken a number of steps to improve our balance sheet.

In fiscal 2003, we altered our accounting policies and began to write off pension accounting-related actuarial differences in the fiscal year that they arise, rather than amortizing them. Also in fiscal 2003, we returned the substitution portion of welfare pension funds previously managed on behalf of the government, lowered the discount rate used in calculating pension benefit obligations, and established a system for reducing the pension burden over the long term. In conjunction with this, we decided to post valuation losses on real estate for sale, idle real estate, and investment securities. As a result, we booked ¥38.8 billion in extraordinary losses in fiscal 2003.

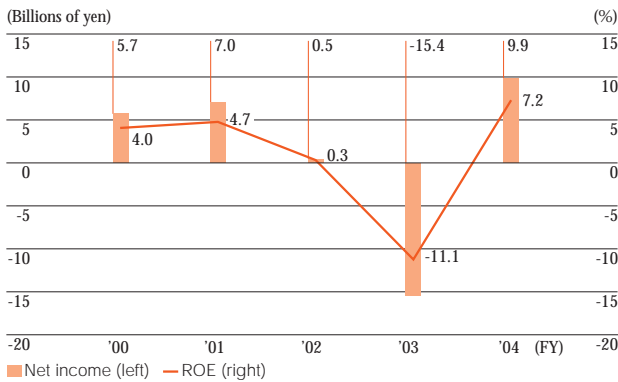
In fiscal 2004, we introduced a cash balance plan, in which retirement benefits and pension funds earn in line with market interest rates, thereby reducing our retirement benefit obligations and creating a system that is less vulnerable to changes in interest rates. In addition, we opted for early adoption of fixed-asset impairment accounting, and recorded an impairment loss of around ¥5.5 billion, primarily on golf courses.

Owing to the large extraordinary losses resulting from these measures, shareholders' equity declined sharply in fiscal 2003, and the term-end shareholders' equity ratio fell to 36.3%, from 40.3% at the end of fiscal 2002. However, the shareholders' equity recovered to 39.6% at the end of fiscal 2004, or nearly to where it was at the end of fiscal 2002. Going forward, we intend to increase profits sharply, thereby enhancing shareholders' equity.

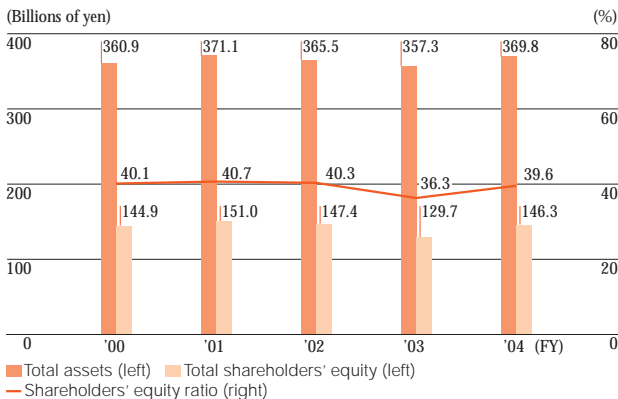
Operating Income and Operating Income Margin



Net Income (Loss) and ROE



Total Assets, Total Shareholders' Equity, and Shareholders' Equity Ratio



Special Feature Part 1: Focusing Efforts on New Core Businesses

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



Manufacturing plant in Nelson Pine Industries Limited

1. Overseas Operations

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

History and Present Status

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

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

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



Main Overseas Bases (Manufacturing, Distribution, and Housing)

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

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

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

Present Conditions by Operation

(1) Timber and Building Materials Manufacture and Sales

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

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

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

(2) Housing Sales

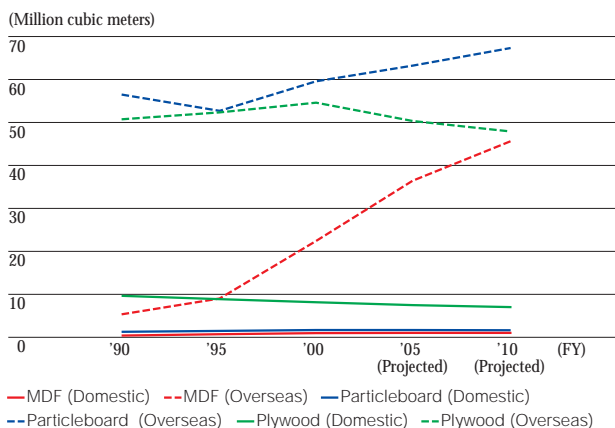
With the domestic housing market contracting, we are pursuing the growth potential of overseas markets in the field of housing as well as timber and building materials.

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

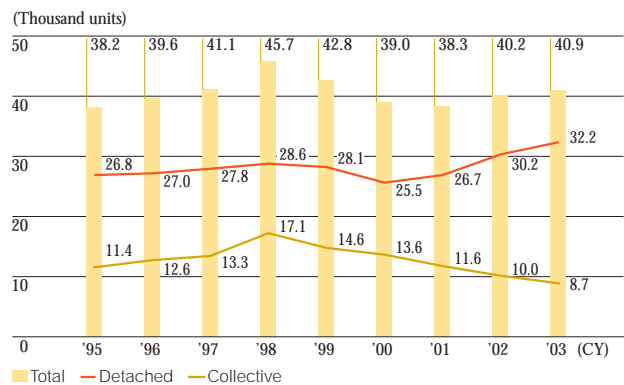
Major Advances in the Sumitomo Forestry Group's Entry into the U.S. Housing Market

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

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



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



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

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

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

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

Future Goals and Strategies of Overseas Operations

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

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

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

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



2. Collective Housing Business

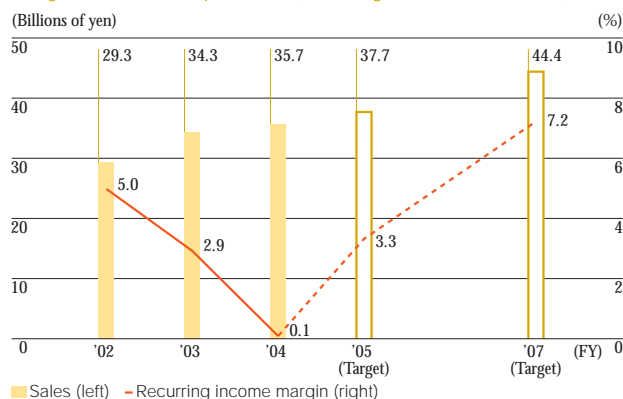
History and Present Status

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

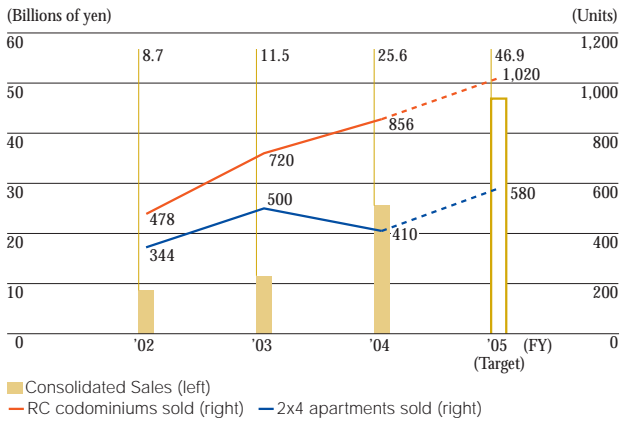
Sumitomo Forestry's collective housing-related business started in 1987, and became independent in 1991 as the Specific Building Headquarters. It then became the Collective Housing Headquarters in 2002, which it remains today. The business has bases in each of the three major urban areas, Tokyo, Osaka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

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

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



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



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

Future Goals and Strategies of the Collective Housing Business

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

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

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

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

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



Two-by-four wooden apartment houses

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

3. Housing Stock Business

History and Present Status

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

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

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

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

Future Goals and Strategies

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

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

(1) Remodeling

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

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



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

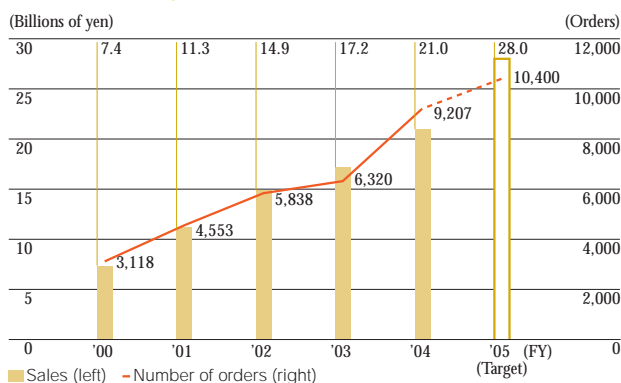
up to 10 years from the end of work and up to four free after-sales maintenance visits.

(2) Real Estate Distribution

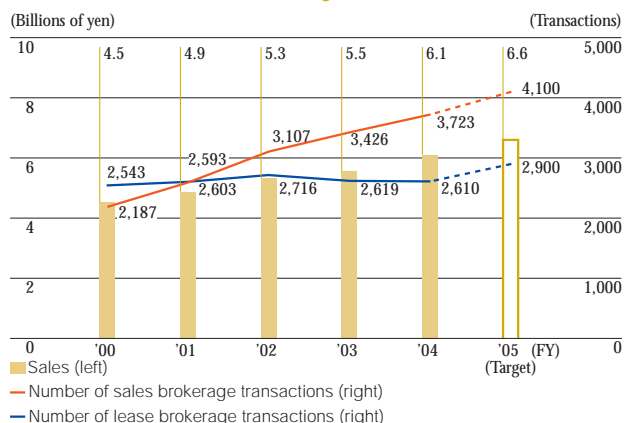
We are focusing our efforts on establishing sales bases in the Tokyo metropolitan area, the nation's largest market, which we consider indispensable to our future business expansion. In fiscal 2005, we plan to establish two new offices in the Tokyo metropolitan area, two in the Kinki area, and one in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

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

Sumitomo Forestry Home Tech: Sales and Orders Received



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



The Strengths of Sumitomo Forestry's Housing Business

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

1. Brand Strength

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

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

(1) Expertise in Wood

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

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

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

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

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

(2) Technical Expertise

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

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

(3) Putting the Customer First

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

Our company-wide efforts to boost customer satisfaction

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

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

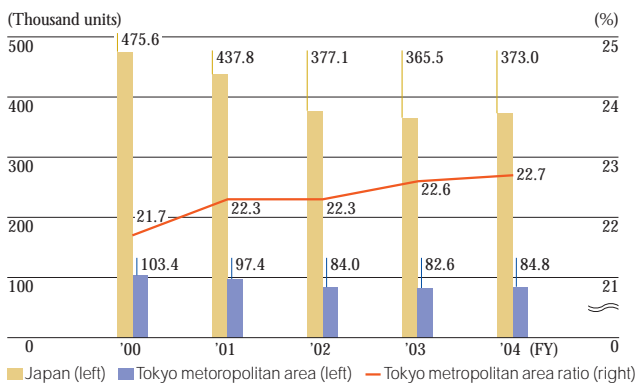
2. Strength in Urban Markets

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

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

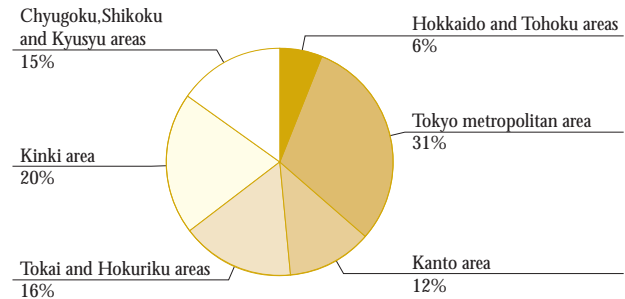
In fiscal 2005 we will enhance our strategy for Tokyo, the nation's largest market, and we will subsequently take similar steps in other urban areas. We will conduct more finely segmented area marketing and will formulate finely detailed marketing strategies for each of these areas. Sumitomo Forestry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

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



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

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



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

3. Marketing Strength

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

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

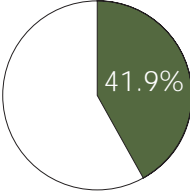
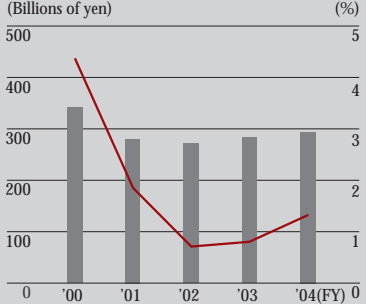
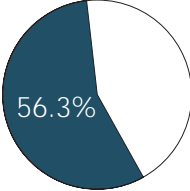
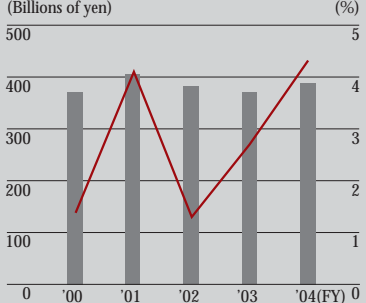
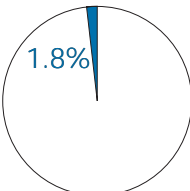
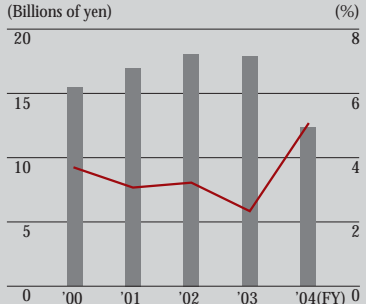
At the same time, we will increase advertising and promotion spending, as well as the number of marketing personnel, with the goal of further enhancing our marketing capabilities.

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

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

Sumitomo Forestry at a Glance

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

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

* Number of headquarters employees: 155

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

Review of Operations: Timber and Building Materials

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

Timber and Building Materials Market Conditions

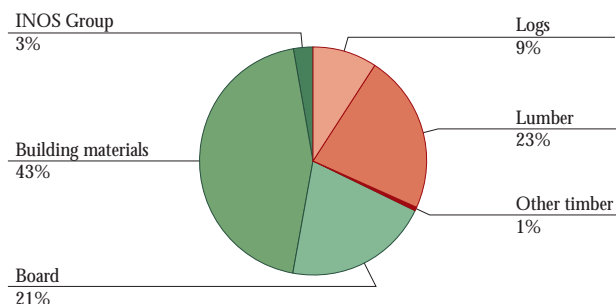
Although the overall log market is shrinking, the lumber product market showed signs of rebounding. As a result, commodity indices for both domestically produced and imported materials stopped falling after having trended steadily downward over the several preceding years. In contrast, demand for building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

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

Fiscal 2004 Policies and Results

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

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



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

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



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



Alpine MDF Industries Pty Ltd., Australia



Sumitomo Forestry Crest Co., Ltd.

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

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

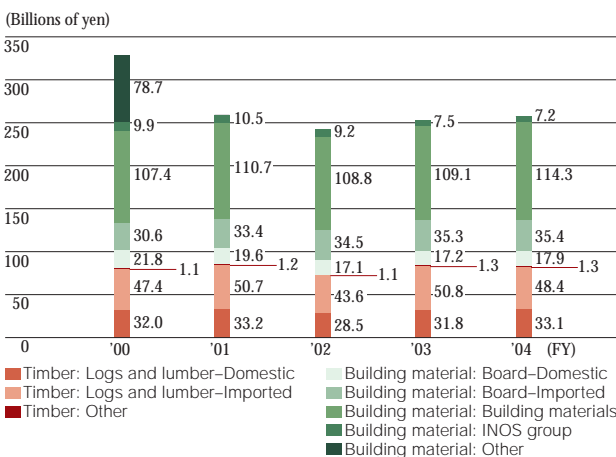
fiberboard (MDF) manufacturing and sales business, we established a four-line production system through Nelson Pine Industries Ltd. (NPIL) in New Zealand and Alpine MDF Industries Pty Ltd. in

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

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

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

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



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

Timber and Building Materials Distribution

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

INOS Group

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



Japanese cypress posts for Sumitomo Forestry's Home



A house constructed by the INOS Group

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

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

Building Materials Manufacturing

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

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

Strategy for Fiscal 2005 and Beyond

The Japanese timber and building materials industry is



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

Review of Operations: Housing and Housing-Related Businesses

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



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

Housing Market Conditions

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

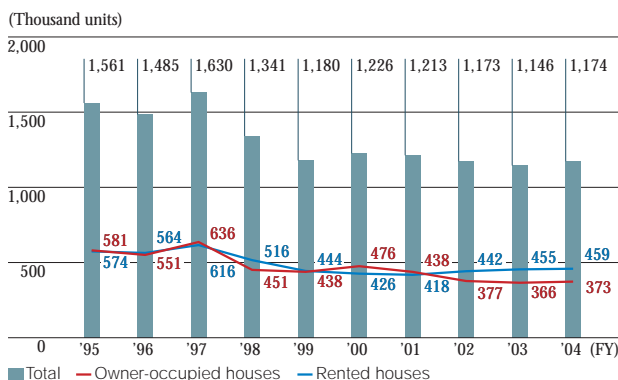
rented houses, and built-for-sale houses.

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

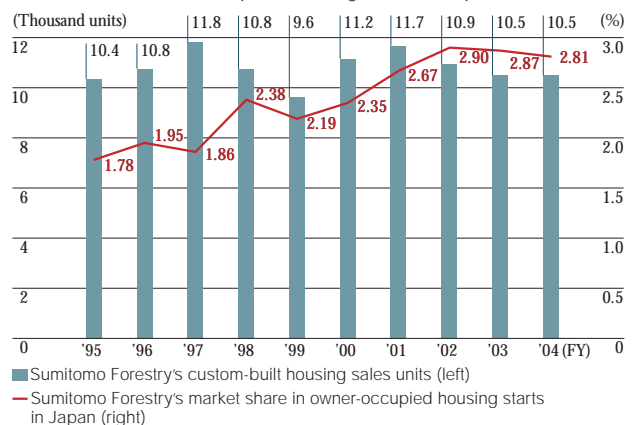
Fiscal 2004 Policies and Results

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

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



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



Major Product Lineup of Detached Houses (Sumitomo Forestry)

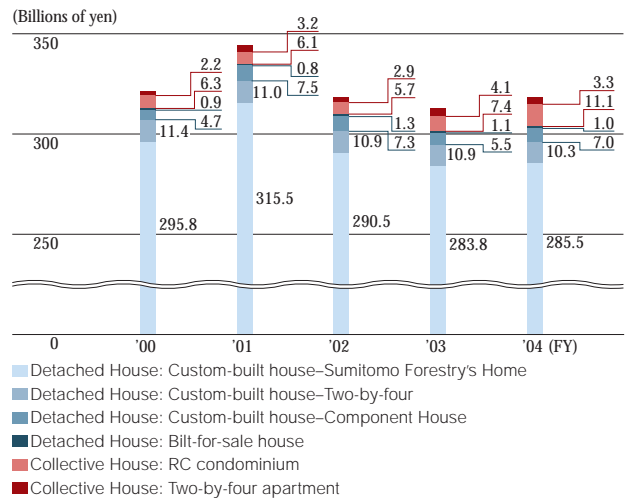
Product Series Name	Features
GODAI	Custom-built house targeted at mid- to high-end customers. Sumitomo Forestry's Home's mainstay. Structural material: Japanese cypress. WARAKU is a Japanese style GODAI house that conveys the beauty of Japanese tradition.
rialt	Custom-built house targeted at young first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

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

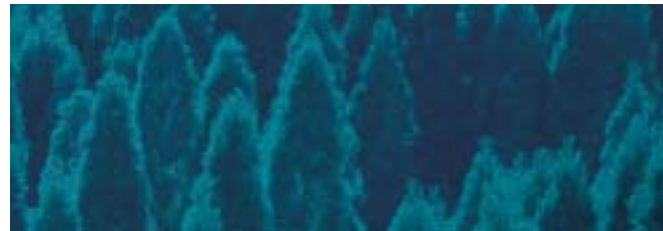
In the detached housing business, sales rose 0.8% year on year to ¥303,752 million, essentially unchanged from the preceding year. Our custom-built detached houses sold totaled was 10,496 units in fiscal 2004 on a non-consolidated basis, with a market share of 2.81%. Particularly for owner-occupied wooden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

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

Changes in Composition of Sales by Housing Type



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



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



Modern-looking interior popular among younger generations

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

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

Strategy for Fiscal 2005 and Beyond

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

Detached Housing

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

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



RC rental condominiums in collective housing business

tomers demographics and geographical areas.

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

Collective Housing

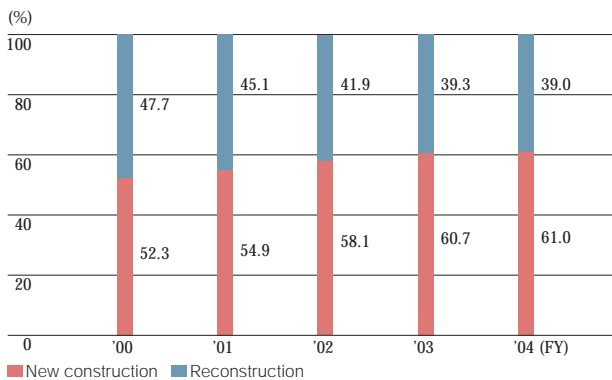
In the collective housing business, our goals are to achieve sales of ¥55.0 billion, recurring income of ¥1.5 billion, and sales volume of over 3,000 units within three years through fiscal 2007.

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

Housing Stock

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

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



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

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

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

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

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



"Sumai Haku" housing fair

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

Sumai Haku Housing Fairs

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

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



Review of Operations: **Other**

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

Fiscal 2004 Policies and Results

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

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



Tomatoes grown in Tsuchi Taro

Lifestyle-Related Businesses

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

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

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

Our Corporate Social Responsibility Efforts

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

Environmentally Sound Operations

Environmental Management System

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



Weeping cherry tree at Daigoji Temple, Kyoto

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

Environmental Accounting

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

Fiscal 2004 Environmental Costs and Effects

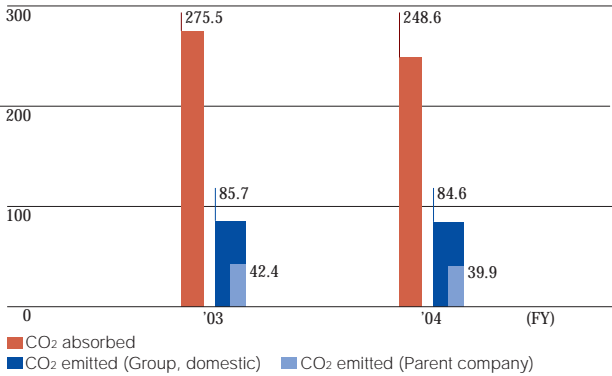
Category	Costs (Millions of yen)		Effects
		YoY	
Business area	4,433	+385	Group-owned forests absorb 248,639 t-CO ₂ per year, etc.
Management activity	102	-76	Volume of copy paper used lowered 5.1% from 2002 at Tokyo headquarters.
Research and development	305	-122	—
Social contribution	95	-42	Reforestation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



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



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



Measures to Mitigate Global Warming

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

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

Sustainable Forestry Management

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

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



Tropical Rain Forest Regeneration Project, Indonesia

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

Overseas Afforestation Operations

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

As part of a grant aid under the Overseas Development



Volunteer reforestation activity in Mt. Fuji Manabi no Mori



Students who received scholarships from KTI Educational Foundation

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

Social Contribution Activities

Indonesia: Tropical Rain Forest Regeneration Project

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

Mt. Fuji: Manabi no Mori Project

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

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

Activities at Our Indonesian Building Materials Companies

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



the local society through the ongoing activities of the foundation.

Corporate Governance and Compliance

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

Our Corporate Governance Efforts

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

Board of Directors and Management Committee

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

Auditing System

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

Compliance System

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

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

Overseas Network

Overseas Offices and Subsidiaries

1. Seattle Office/Sumitomo Forestry, Inc.

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2. Vancouver Office

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

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6. Khabarovsk Office

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Fax: 7-4212-32-83-61
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7. Dalian Office

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8. Tawau Office

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Fax: 60-89-761060

9. Kota Kinabalu Office

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Fax: 60-88-268031
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10. Miri Office

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Fax: 60-85-413598
E-mail: sfcmiri@tm.net.my

11. Sibul Office

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Fax: 60-84-317635

12. Auckland office/Sumitomo Forestry NZ Ltd.

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Fax: 64-9-309-0014
E-mail: sfnz@xtra.co.nz/
sumitomo@xtra.co.nz

13. Nelson Pine Industries Limited

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Fax: 64-3543-8890
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14. P.T. Kutai Timber Indonesia

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Fax: 62-21-5200313
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15. Plywood Factory Probolinggo

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16. Surabaya Office

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17. Samarinda Office

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Fax: 62-541-741967

18. Alpine MDF Industries Pty Ltd.

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Fax: 61-3-5721-3588

19. Pacific Wood Products LLC

16310 NE 85th St. Suite 100,
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Fax: 1-425-885-0057
E-mail: sfs@sumiforsea.com

Affiliated Companies

20. P.T. Rimba Partikel Indonesia

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Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id

21. Jakarta Office

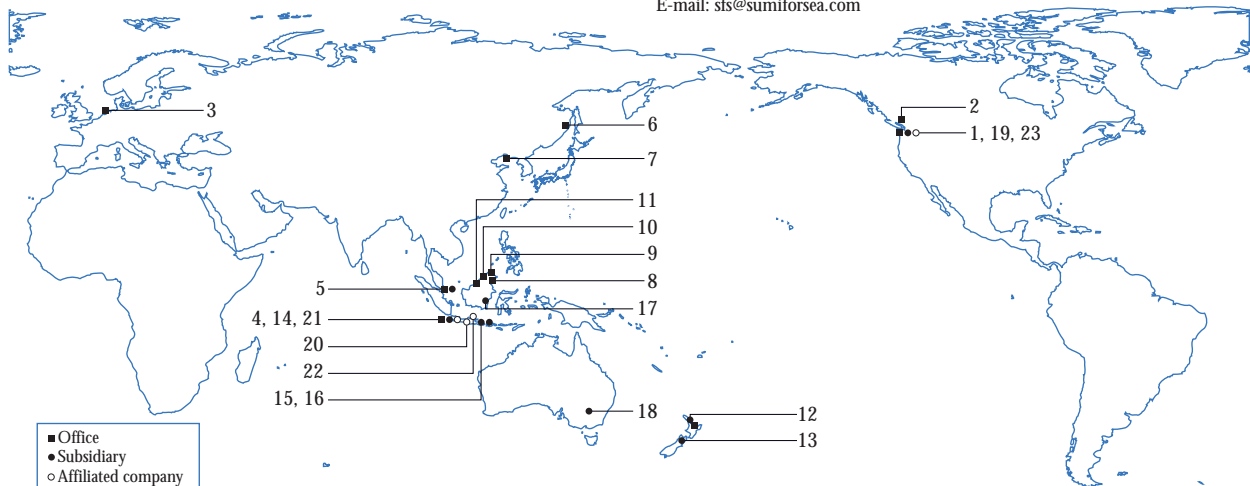
Gedung Idola Tunggal Slipi, JL.
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Jakarta 11410, Indonesia
Tel : 62-21-5321637
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E-mail: rimbajkt@cbn.net.id

22. P.T. AST Indonesia

KITW Technopark Blok A-01, JL.
Raya Semarang-Kendal KM. 12,
Semarang, Indonesia
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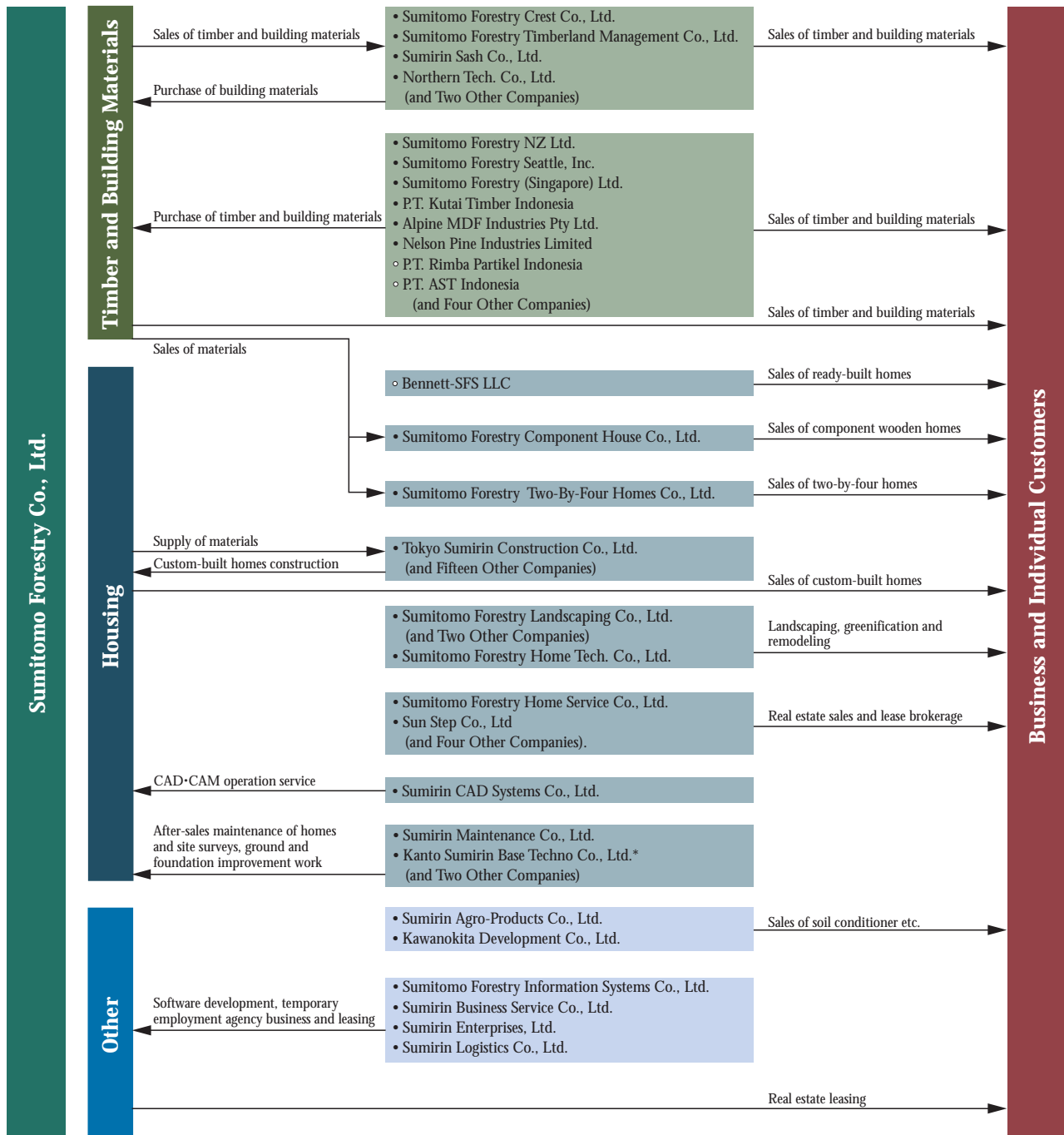
23. Bennett-SFS LLC

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



(As of August 1 2004)

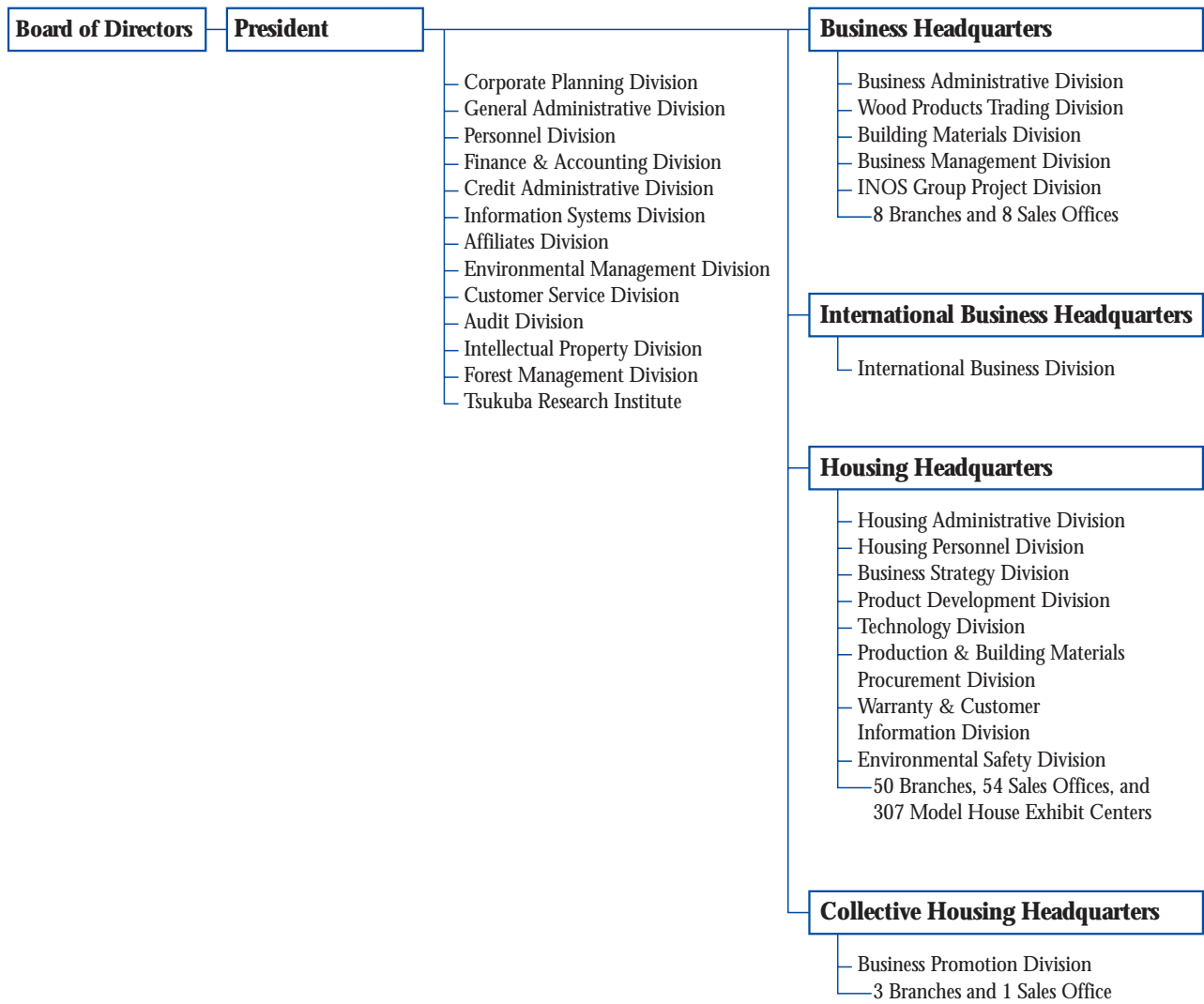
Subsidiaries and Affiliates



• Consolidated subsidiary
◦ Equity-method affiliate

(As of March 31, 2004)

Organization Chart



(As of August 1, 2004)

Board of Directors, Auditors and Executive Officers



Akihiro Ueda
Senior Executive Officer

Kanji Sugano
Vice President and Executive Officer

Ryu Yano
President and Chief Executive Officer

Directors

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

Statutory Auditors

Junji Ikai
Joji Itoh
Hiroshi Miki
Satohiko Sasaki

Executive Officers

President and Chief Executive Officer
Ryu Yano

Vice President and Executive Officer
Kanji Sugano

Senior Executive Officer
Akihiro Ueda

Managing Executive Officers

Shuji Kitamura
Kazuo Kai
Shoichi Takahashi
Hideki Nose
Hideo Kanai

Executive Officers

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

(As of June 29, 2004)

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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 revenues	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

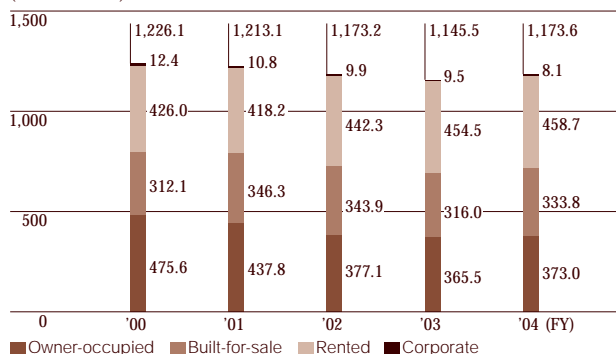
second half of the fiscal year.

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.

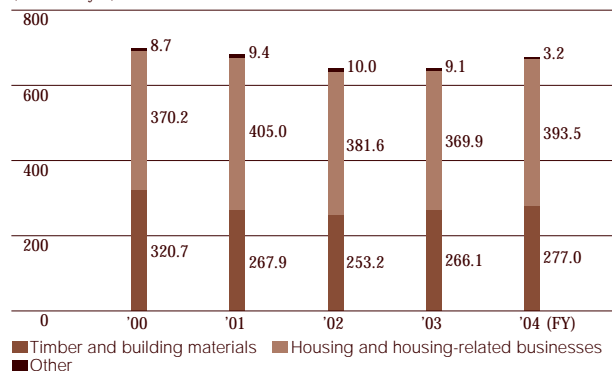
Scope of Consolidation

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 lev-

els, 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.

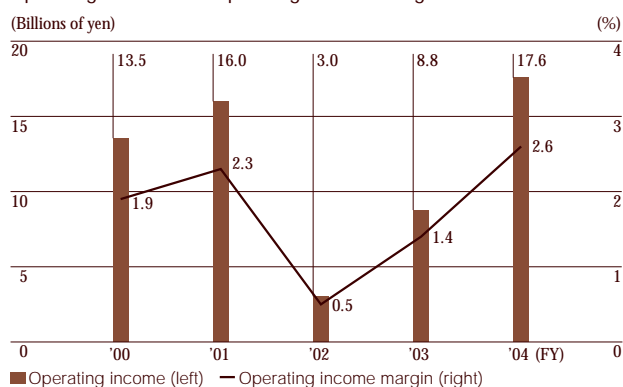
Sales in the Other segment fell 64.6% to ¥3.2 billion (US\$30.5 million).

Operating Income

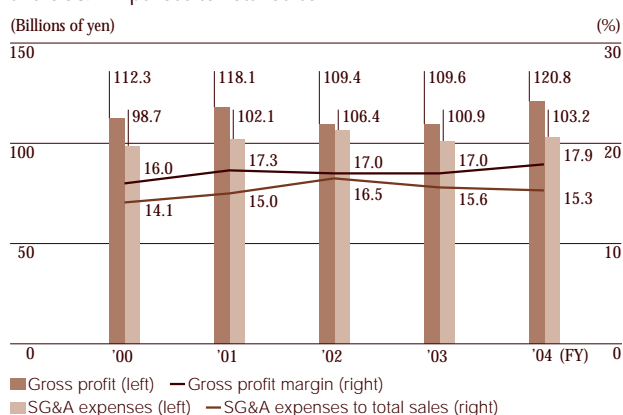
Operating income surged 100.4% to ¥17.6 billion (US\$165.8 million), reflecting efforts to reduce housing production costs and curtail selling, general and administrative (SG&A) expenses. The operating margin improved 1.2 percentage points to 2.6%.

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.

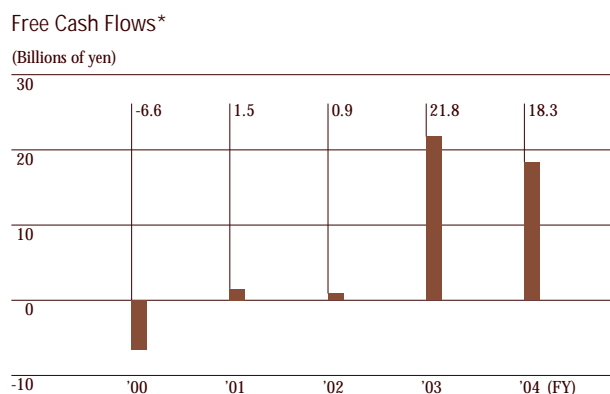
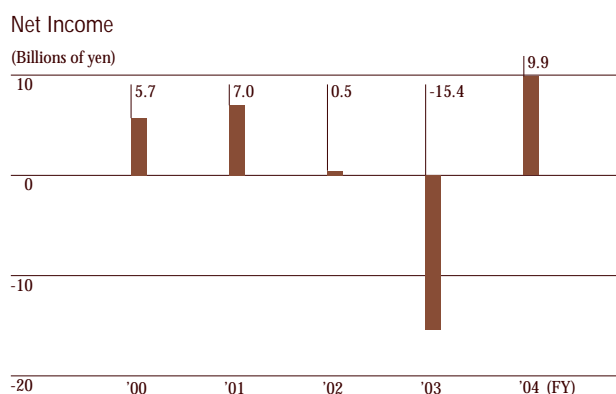
Net Income

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-



* 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.

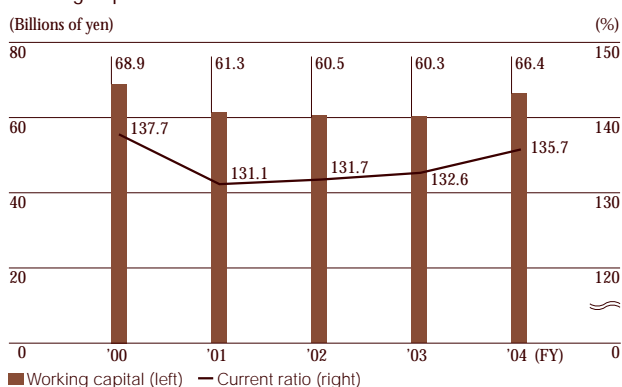
Total current liabilities increased 0.6% to ¥186.0 billion (US\$1,754.3 million), while total long-term liabilities declined 13.1% to ¥37.1 billion (US\$350.5 million) mainly because accrued employees' retirement benefits decreased ¥12.7 billion (US\$120.2 million), due to a change in the Company's retirement 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%.

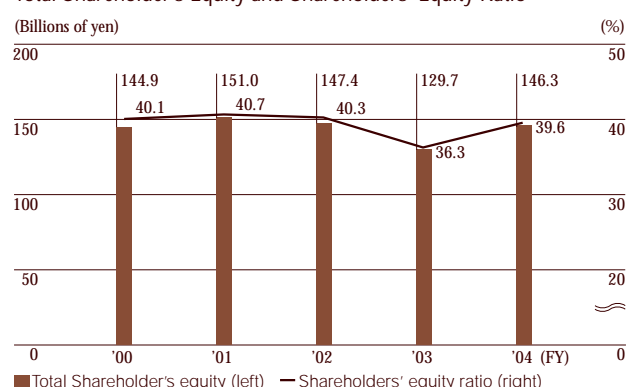
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt, and long-term debt) increased 20.8% to ¥19.9 billion (US\$188.0 million).

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

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	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		Thousands of U.S. dollars (Note 4)
	2004	2003	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
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 from 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 pre-cut 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 custom-built 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	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
2004				
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	2003
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	2003
	¥ 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	2003
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	2003
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
	2004	2003	U.S. dollars
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
	2004	2003	U.S. dollars
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.

YEAR ENDED MARCH 31, 2004	Millions of yen					
	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

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	¥ 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 Note 3 (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.

YEAR ENDED MARCH 31, 2004	Millions of yen				Consolidated
	Domestic	Other	Total	Elimination and/or corporate	
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

YEAR ENDED MARCH 31, 2004	Thousands of U.S. dollars				Consolidated
	Domestic	Other	Total	Elimination and/or corporate	
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.



Certified Public Accountants
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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

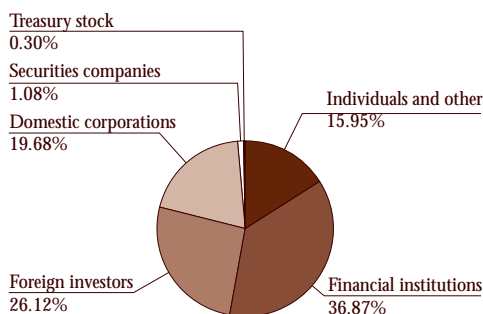
Authorized: 400,000,000 shares

Issued: 176,603,881 shares

Number of Shareholders:

11,710

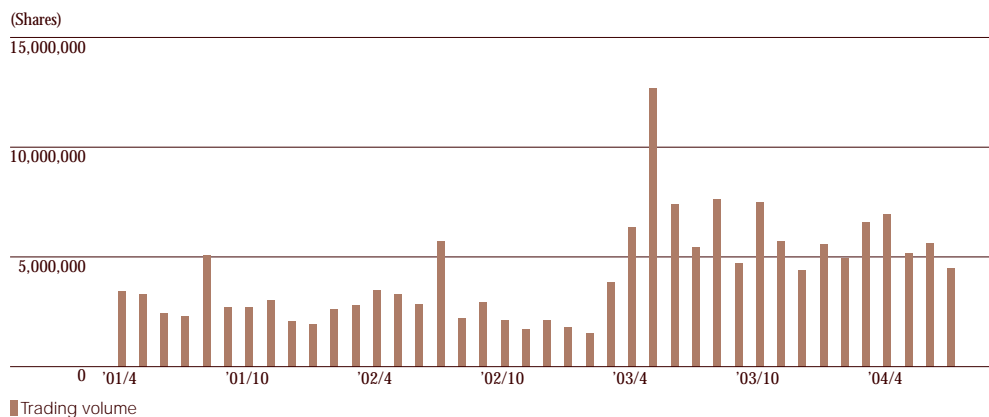
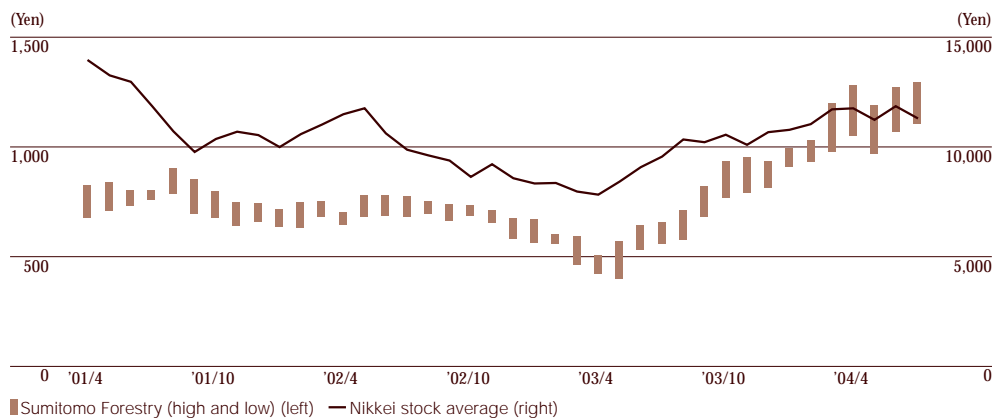
Composition of Shareholders



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.

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Tokyo 100-8270, Japan
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(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 headquarters functions which were previously divided to Osaka and Tokyo.

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

For further information, please contact:

Corporate Planning Division

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