

CREATIVITY-DRIVEN GROWTH KNOWS NO END



Annual Report 2005

 SUMITOMO FORESTRY CO.,LTD.

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→ C R E A T I N G T O M O R R O W

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.

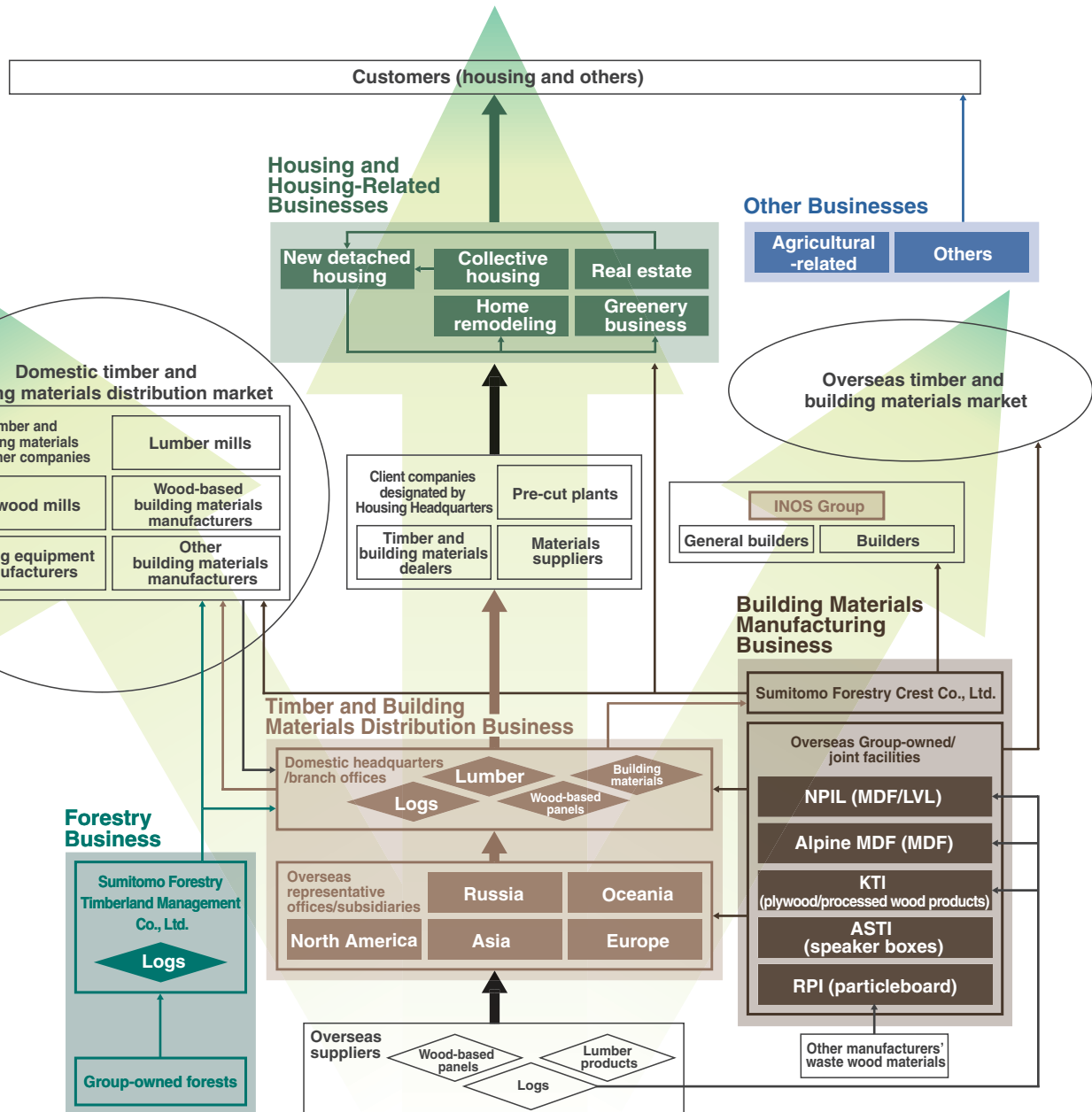


FOR ALL STAKEHOLDERS

Comprehensive Strength is Our Focus

We at Sumitomo Forestry have won the support of our customers because of our solid expertise and technical skill deriving from our centuries of experience with the wood that provides warmth and a sense of security to the living space. We believe our customers' trust is the result of our comprehensive strength regarding wood and housing, from upstream to downstream.

Rising to the top by maximizing comprehensive strength and synergies between businesses



Maximizing differentiation in all areas, from upstream to downstream, has enabled a steady increase in market share

A materials procurement network that spans the globe

- Among Japan's leaders in log, lumber, plywood, and MDF purchasing volume
- One of the highest volume MDF-producing mills in the Pacific Rim
- Highest particleboard production volume in Indonesia

Sound product strength, supported by technological strength and strict standards

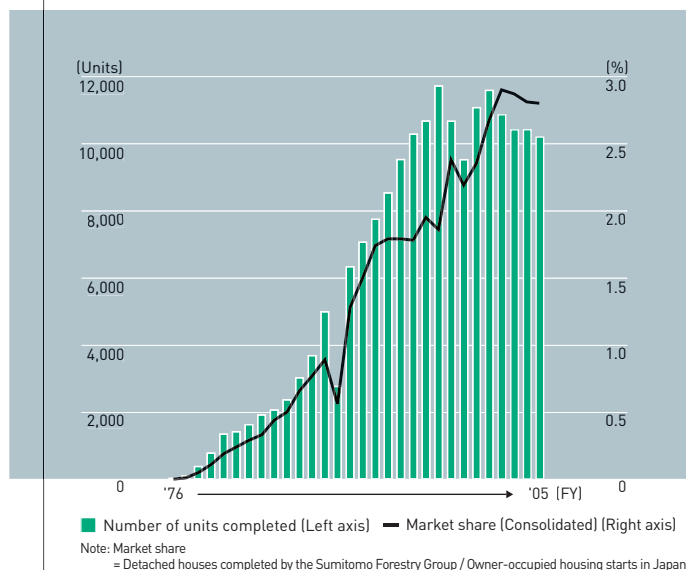
- No. 1 custom-built wooden homebuilder in number of completions*
- Highest in the number of in architects among major homebuilders

* Jutaku Sangyo Kenkyujo Co., Ltd.

A service system that fully grasps customer needs

- METI Minister Award for Exemplary Consumer Focus received in fiscal 2005
- No.1 ranking in 2003 Nikkei Business after-sales service survey, housing division

Number of Detached Houses Completed and Market Share

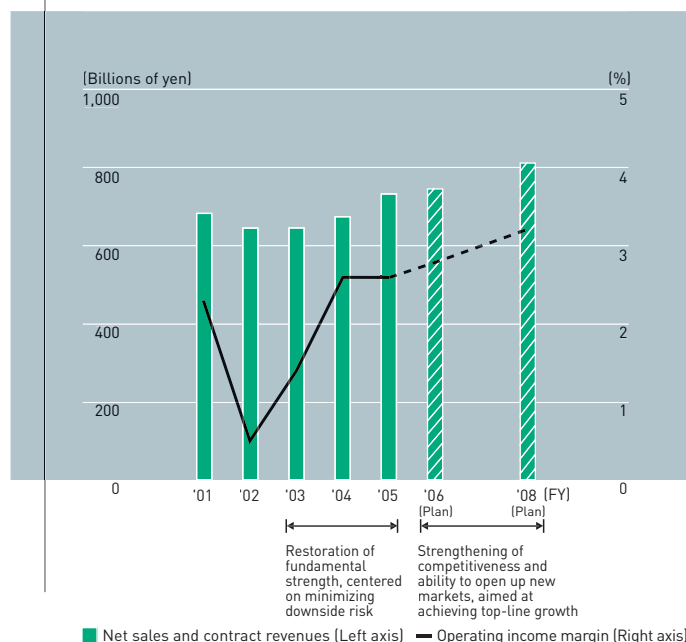


Now that we have restored profitability, we are redoubling efforts to increase earnings sustainability and growth potential

The management structural reforms we implemented from fiscal 2003 through fiscal 2005 have provided us with a firm foundation for our next growth phase. Specifically, it has resulted in (1) a ¥15.6 billion reduction in housing production costs (exceeding our target); (2) improved financial structure; and (3) a firm foothold in priority growth businesses.

With this as a base, in fiscal 2006 and thereafter we will intensify our efforts to achieve sustainable growth. We consider the two main drivers of top-line growth to be (1) substantially increasing market share in mainstay businesses; and (2) expanding operations in priority growth businesses.

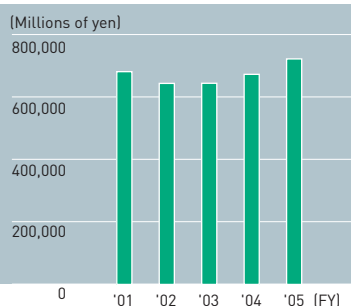
Net Sales and Contract Revenues and Operating Income Margin



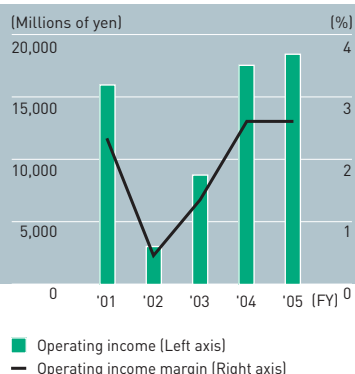
Financial Highlights

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

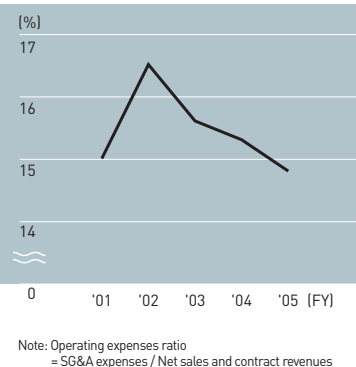
Net Sales and Contract Revenues



Operating Income and Operating Income Margin

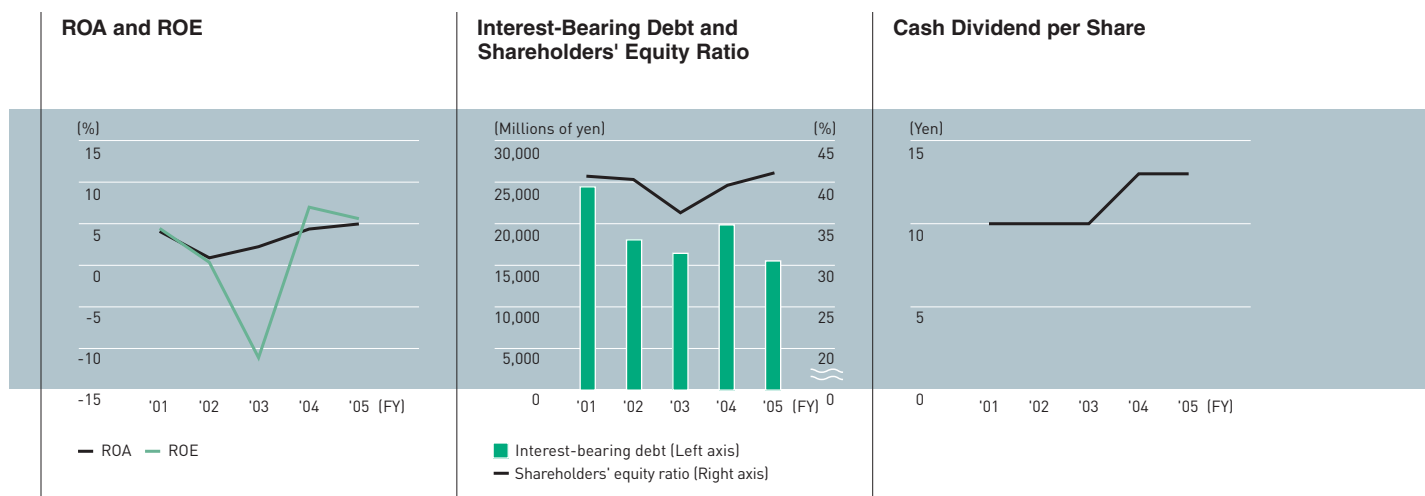


Operating Expenses Ratio



Note: Operating expenses ratio
= SG&A expenses / Net sales and contract revenues

	2005	2004	2003	2002	2001	2005
	Millions of yen					Thousands of U.S. dollars*1
Operating Results:						
Net sales and contract revenues	¥ 723,193	¥ 673,779	¥ 645,100	¥ 644,730	¥ 682,375	\$ 6,758,817
Gross profit	125,582	120,778	109,631	109,437	118,064	1,173,666
Selling, general and administrative expenses (SG&A expenses)	107,116	103,201	100,858	106,397	102,065	1,001,087
Operating income	18,466	17,577	8,772	3,040	15,999	172,579
Recurring income*2	18,692	17,074	9,721	3,731	16,908	174,694
Net income (loss)	8,014	9,870	(15,439)	465	6,994	74,900
Financial Position:						
Total assets	370,684	369,755	357,322	365,531	371,102	3,464,338
Interest-bearing debt	15,580	19,929	16,497	18,124	24,517	145,607
Total shareholders' equity	152,500	146,269	129,727	147,440	150,979	1,425,234
Cash Flows:						
Cash flows from operating activities . . .	6,685	25,962	19,734	17,332	3,468	62,474
Cash flows from investment activities . .	(12,895)	(7,646)	2,026	(16,439)	(1,960)	(120,516)
Cash flows from financing activities . . .	(7,087)	(735)	(8,171)	(9,716)	(13,873)	(66,231)
Per Share Data:						
Net income (loss)	¥ 45.28	¥ 55.81	¥ (87.53)	¥ 2.64	¥ 39.64	\$ 0.42
Shareholders' equity	866.47	830.50	736.42	835.07	854.91	8.10
Cash dividends	13.00	13.00	10.00	10.00	10.00	0.12



	2005	2004	2003	2002	2001
	%				
Financial Ratios:					
Operating income margin	2.6	2.6	1.4	0.5	2.3
Return on assets (ROA)* ³	5.0	4.7	2.7	1.0	4.6
Return on equity (ROE)* ³	5.4	7.2	(11.1)	0.3	4.7
Shareholders' equity ratio	41.1	39.6	36.3	40.3	40.7
Interest-bearing debt ratio* ⁴	9.3	12.0	11.3	10.9	14.0
	Units				
State of Orders (on a unit basis):					
Custom-built detached housing	10,076	10,529	10,538	10,685	11,377
Collective housing	1,776	1,655	1,227	1,075	719
State of Sales (on a unit basis):					
Detached housing	10,319	10,542	10,552	11,008	11,710
Collective housing	1,571	1,266	1,220	822	893
Reference Market Data:					
New housing starts (nationwide)	1,193,038	1,173,649	1,145,553	1,173,170	1,213,157
New housing starts (Tokyo metropolitan district) . .	419,088	422,750	393,296	393,625	395,086
Owner-occupied housing starts (nationwide) . .	367,233	373,015	365,507	377,066	437,789

Notes: 1. Japanese yen amounts have been translated into U.S. dollar amounts, for the reader's convenience only, at the rate of ¥107=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2005.

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 activities. 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 activities.

3. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income (loss) / Shareholders' equity

4. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

To All Our Stakeholders

Our competitive edge and brand value lie in our ability to provide a variety of services related to the living environment, always from the customer's perspective as professionals in wood and housing imbued with the richness that wood adds to peoples' lives. We at Sumitomo Forestry have cultivated this ability through living with and learning from forests ever since our foundation more than 300 years ago.

Through management structural reforms conducted over the past three years, we have steadily bolstered our management base, enabling us to take a more aggressive stance. We are now at the point where we can accelerate the opening of new markets, with the goal of providing a broader range of customers with the expertise, technology, and services that set the Sumitomo Forestry Group apart from the competition.

We strongly believe that the possibilities for creating markets and added value are unlimited, and we are working to further increase the Group's profitability and corporate value by winning the maximum possible support and confidence from all our stakeholders.

Business Performance in Fiscal 2005 (April 2004-March 2005)

Strength of Recovery Weak Overall

In fiscal 2005, ended March 31, 2005, the Japanese economy saw exports and production trend upward, fueled by growth in the global economy, and positive signs were seen in corporate profits, employment, and personal spending. However, the domestic economy slowed in the latter half of the year, owing to inventory adjustments among IT-related companies and weakness in exports. Consequently, the outlook for the economy remained cloudy. In the housing industry, demand for built-for-sale houses and rented houses increased, but owner-occupied housing starts —the factor with the greatest impact on Sumitomo Forestry's earnings— returned to negative growth, falling 1.6% year on year, to 367,000 units. In the timber and building materials market, prices for some products rose, thanks in part to an overall increase in new housing starts, but in the second half, there was a reversal in prices due to oversupply and the market price trend remained weak.

Steady Growth Independent of the Macro Economy

In spite of this stagnant operating environment, the Group achieved a third consecutive year of positive earnings growth in fiscal 2005, with net sales and contract revenues totaling ¥723.2 billion, up 7.3% year on year. Profit growth was even stronger and recurring income rose 9.5%, totaling ¥18.7 billion, as ongoing production cost and operating expense reductions offset a sharp rise in materials costs and an increase in sales promotion expenses. To accelerate the process of exercising selectivity in our business portfolio, and to help concentrate management resources on growth fields going forward, we withdrew from the wooden component housing business, and in connection with this recorded an extraordinary loss of just over ¥3.2 billion. Consequently, net income fell 18.8%, to ¥8.0 billion.

Profitability Up in All Business Segments

Sales and profits rose in all business segments. In the Timber and Building Materials segment, there was a sharp recovery in earnings, with segment sales and operating income up 9.2% and 21.0% year on year, respectively. This was attributable in part to the improved performance of our overseas building materials manufacturing operations (earnings from which were poor in fiscal 2004), where market prices recovered and overseas group companies worked to streamline their manufacturing. In the Housing and Housing-Related Businesses segment, sales rose 6.3%, largely attributable to (1) an increase in unit prices, despite no growth in the number of completions, stemming from the success of the Group's ongoing strategy of shifting to high value-added products; and (2) steady growth in the housing stock business which includes the remodel-



Ryu Yano

President and Chief Executive Officer

ing and real estate transaction businesses, and is an area that the Group considers to be a new growth driver and is aggressively working to expand by adding personnel and business bases. Although the segment achieved ¥3.7 billion in cost reductions, segment operating income rose only 2.2%. This was attributable to (1) aggressive spending on sales promotion, aimed at fostering future growth; (2) cost increases associated with enhancing product competitiveness; and (3) sharply higher materials costs and expenses related to recovering from natural disasters such as typhoons and earthquakes.

A Look Back at Our Three-Year Management Structural Reform Efforts (Fiscal 2003-2005)

Over three-years, ended in fiscal 2005, we aimed at strengthening the Group's structure to enable a new growth phase, and implemented group-wide management structural reforms. We fully intend to be one of the winners in our field, able to maintain growth even in a challenging operating environment. Our goal is to achieve truly excellent management, impervious to changes in the macro environment —indeed, we consider this a prerequisite for being one of the industry winners. We call the three qualities that must be in place in order to achieve excellent-company status “Strong (Strength), Big (Size), and Good (Quality).” By “Strong,” we mean having a solid corporate structure. By “Big,” we mean increasing the scale of the Group. By “Good,” we mean conducting our operations in a way that benefits society. Although we are still only half way on our journey toward excellent-company status, our reform efforts over the past three years have generated steady results, and our management base is vastly stronger than before. As a result, over the past three years our operating income and net income have increased six-fold and 17-fold, respectively.

Strong: Adopting a Muscular Earnings Structure

We have worked to reduce operating expenses and housing production costs to achieve solid profitability that is less susceptible to fluctuations in economic conditions. Specifically, we have vastly improved manufacturing efficiency by (1) reducing material waste and inefficient processes through a review of construction methods and the use of the Network Aided Construction Support System (NACSS), a house construction management system that uses IT to unify the management of specifications and construction progress; and (2) developing materials that are both lower in cost and higher in performance. As a result, over the past three years we were able to reduce housing production costs by more than our initial goal of ¥15.0 billion. Furthermore, by increasing product quality without raising product prices, we improved customer satisfaction and increased our operating income margin by 2.1 percentage points compared to fiscal 2002. Moreover, we lowered personnel costs by reforming our retirement-benefits system and reduced operating expenses by controlling leasing costs and advertising and promotion expenses. This enabled us to lower our operating expenses ratio by 1.7 percentage points compared to fiscal 2002.

Big: Nurturing New Businesses to Accelerate Growth

Not all of the moves we carried out in the three-year management structural reforms were defensive in nature. Particularly in the latter half of the period, we invested resources in three priority growth businesses (overseas operations, housing stock, and collective housing) in preparation for taking a more aggressive management stance in fiscal 2006 and beyond. As a result, the aggregate sales and recurring income of these three businesses have doubled over the past three years.

Good: Creating a Sound Management System

Along with our efforts to increase the soundness and transparency of our management system, we have tried to improve the quality of management through a review of strategic functions and operations. We worked to further strengthen our already solid financial structure by solving the shortage of accrued retirement benefits in fiscal 2003, and adopting fixed-asset impairment accounting in fiscal 2004 ahead of it becoming mandatory. All this helped to make our balance sheet sounder and more transparent. In addition, as part of our effort to exercise greater selectivity and focus in our business portfolio, we withdrew from unprofitable businesses as discussed earlier.

Among organizational developments, we introduced an executive officer system in fiscal 2003 and concentrated strategic and policymaking functions with the Corporate Planning Division, with the goal of speeding up the Company's decision-making capabilities. We also worked to enhance the Company's compliance and risk management and improve its ability to quickly respond to changes in the business environment. Moreover, to increase employee motivation and bring out their latent productivity, we established a new personnel system in fiscal 2004, with the goal of shifting from outdated personnel practices such as the seniority system and lifetime employment to a practical job grading system that emphasizes the capabilities and performance of the individual employee.

Future Strategies —Going All Out to Enable More Aggressive Management

Working to Increase Top-Line Growth

Over the past three years, we have worked to improve profitability mainly by reducing production costs and have established a solid corporate structure that is less susceptible to fluctuations in the economy. However, we cannot strengthen our profit-generating capability in a sustainable manner or increase our corporate value by defensive efforts alone. For that reason, in fiscal 2006 we are shifting our management stance from “defense” to “offense.” Based on the brand strength we have accumulated over the years as well as the strong profitability and solid management system we have put in place over the past three years, we will go all out to further develop both existing and new markets. Specifically, we will take the following steps to accelerate our top-line growth, with the goal of exceeding the current recurring income record of ¥25.5 billion by fiscal 2008.

1. Increasing Market Share in Core Businesses

Latent demand in the domestic market for newly constructed detached housing is growing, thanks in part to the growing stock of houses approaching replacement age. However, this latent demand has yet to emerge, so the outlook for the market remains cloudy. That said, in large urban areas the potential for market growth is significant, with land prices in certain areas now rising. For that reason, we will for the time being place priority on large urban areas and work to increase market share in these places. In Tokyo, we are stepping up our efforts to achieve the top share in owner-occupied housing within two years. In fiscal 2005, we laid the groundwork for achieving this goal by launching new three-story housing products as well as reinforcing our sales offices and sale staff. In fiscal 2006, we established a new Tokyo Housing Business Division and conducted an organizational review in April 2005. In addition, we will add employees and business bases. We will also bolster land-related initiatives, with the goal of tapping demand among first-time homebuyers, and will continue to put effort into our built-for-sale housing business, which was strengthened starting in fiscal 2005. At the same time, we will continue working to maintain and improve our business structure as a means of bringing down housing production costs.

In the timber and building materials industry, competition for mere survival is intensifying, and industry realignment including mergers among competitors is accelerating. We are formulating a marketing strategy to respond to these major changes and are considering specific capital and operating alliances. In fiscal 2006, as a part of this effort, we have purchased stock in Toyo Plywood Co., Ltd., a manufacturer of housing equipment and building materials, and have approved a plan to purchase stock in Ataka Kenzai Co., Ltd., a building materials trading company. In the area of imported lumber and wood building materials, we are leveraging our purchasing bases spread over a number of regions worldwide to significantly increase our market share in high-quality, directly imported products, including logs, lumber, plywood, and MDF.

Summary of Management Structural Reforms (Fiscal 2003-2005)

1. Efforts to Increase Profitability

Housing production cost reductions	Cost management and streamlining construction processes Result: Costs reduced ¥15.6 billion (versus target of ¥15.0 billion)	
Operating expense reductions	<ul style="list-style-type: none"> • Operating expenses cut by ¥3.6 billion in fiscal 2003 (operating expenses increased in fiscal 2004-2005 owing to investment in priority growth businesses) • Leasing expenses and sales and promotion costs reduced • Risk of sharp increase in personnel expenses lowered thanks to reform of personnel system 	<p>Operating income margin</p> <p>0.5% '02 → 2.6% '05 (FY)</p>
Financial structure improvements	<ul style="list-style-type: none"> • Shortage in accrued retirement benefits reserve solved (fiscal 2003) • Revaluation loss on real estate for sale recorded (fiscal 2003) • Early adoption of fixed asset-impairment accounting (fiscal 2004) • Retirement benefits system reformed (cash balance plan introduced) (fiscal 2004) • Withdrawal from unprofitable businesses (fiscal 2005) <p>etc.</p>	<p>Operating expenses ratio*</p> <p>16.5% '02 → 14.8% '05 (FY)</p> <p>Return on assets</p> <p>1.0% '02 → 5.0% '05 (FY)</p>

* Operating expenses ratio = SG&A expenses / Net sales and contract revenues

2. Efforts to Improve the Management Structure

Management organization improvements	<ul style="list-style-type: none"> • Executive Officer System introduced (fiscal 2003) • Number of directors reduced, Board of Directors reformed (fiscal 2003) • Board of Managing Executive Officers replaced by Executive Committee (fiscal 2003)
Administrative organization improvements	<ul style="list-style-type: none"> • Budget compilation, performance supervision, IR, and other strategic functions concentrated within the Corporate Planning Division (fiscal 2003) • Risk Management Committee (now Risk Management and Compliance Committee) established (fiscal 2003) • Compliance Counter established (fiscal 2003) • Full-scale adoption of CSR management (CSR Promotion Office established in April 2005)

3. Efforts to Accelerate Growth of Priority Growth Businesses

(Billions of yen)	FY2002		FY2005		Change	
	Sales	Recurring income	Sales	Recurring income	Sales	Recurring income
Overseas operations	29.3	1.5	43.5	1.8	+ 14.2	+ 0.3
Housing stock	20.2	0.6	32.0	1.1	+ 11.8	+ 0.5
Collective housing	8.7	[0.4]	48.0	0.8	+ 39.3	+ 1.2
Total	58.2	1.7	123.5	3.7	+65.3	+2.0

Note: All figures are on a simple aggregate basis (i.e., prior to consolidation adjustments).

In domestic building materials, we are redoubling our efforts to conduct community-based marketing, as well as to strengthen our dealings with major wholesalers and manufacturers.

2. Expanding the Scale of Our Three Priority Growth Businesses

To improve our business structure, which is currently highly dependent on the domestic market for owner-occupied housing, and to create a more solid management base, we are investing resources in a concentrated manner in three priority growth businesses in which we can leverage the technologies and expertise we have accumulated in our existing core businesses. We consider expanding the scale of these businesses a high priority, and are taking the following steps to make this happen.

In overseas operations, we intend to further strengthen and expand the scale and geographic scope of existing operations, and to grow new operations. Among new operations, in overseas housing sales, we plan to increase the number of built-for-sale housing sold in North America from 52 in fiscal 2005 to 85 in fiscal 2006 and around 120 in fiscal 2007. We have also started such operations in China and plan to aggressively expand into other regions. Our target for overseas operations is to increase recurring income on a simple aggregate basis from ¥1.8 billion in fiscal 2005 to ¥3.7 billion by fiscal 2008. Our goal is to “become a corporate group that operates total housing and living-related business on a global basis.” To that end, we are working aggressively to open up new markets, to establish as quickly as possible a corporate structure in which it is possible for one-third of total Group profits to be generated by overseas operations.

In the housing stock business which includes the remodeling and real estate transaction businesses, our goal is to increase sales from ¥32.0 billion (with ¥1.1 billion in recurring income on a simple aggregate basis) in fiscal 2005 to ¥45.0 billion (with ¥2.3 billion in recurring income) by fiscal 2008. In the remodeling business, we intend to aggressively expand sales routes through differentiation in planning capabilities and our technological strength including our forte renovation of large wooden properties. By doing so, we believe we can bring our renovation subsidiary Sumitomo Forestry Home Tech Co., Ltd. to the top of the industry. In the real estate transaction business, we plan to add four business bases to the network of real estate transaction subsidiary Sumitomo Forestry Home Service Co., Ltd., bringing the total to 55 in fiscal 2006.

In the collective housing business, our goal is to increase sales from ¥48.0 billion in fiscal 2005 to ¥54.0 billion (with ¥1.5 billion in recurring income on a simple aggregate basis) by fiscal 2008. We are aggressively making priority investments in various marketing activities, such as adding personnel and business bases. In addition, we are working to execute a product strategy that leverages the Sumitomo Forestry brand, in part by increasing the ratio of wooden post-and-beam apartment sales, an area in which we can utilize the expertise we already possess, including that related to lowering costs.

In Conclusion

We are not simply working to be a group that generates strong profits; we are working to create win-win relationships with all our stakeholders with a thoroughgoing Customer First mindset. We believe that only those companies that enjoy widespread support and are truly needed by society can achieve sustainable growth. And, by achieving this sort of sustainable growth, we are working to expand our total housing and living-related businesses on a global basis, and to establish a presence as a corporate group indispensable to peoples' daily lives.

The success of our management structural reforms over the past three years would not have been possible without the assistance of our customers and shareholders, or without our employees, who carry out their duties with a sense of independence and professionalism. Now, to achieve our new goals, all employees and executives will need to have an even more challenging spirit than before. Through enhanced education and training, as well as a Sumitomo Forestry mindset shared by all Group employees, we will make a concerted effort to achieve our goals.

In conclusion, I humbly ask for your continued support and honest counsel going forward.

August 2005

Ryu Yano

President and Chief Executive Officer



Creating Warm, Rich Living Spaces

The Sumitomo Forestry Group has now entered a new stage of growth, taking our sustainability and profitability to new heights. We recognize that the more “premium” we receive from our customers, the higher our levels of sustainability and profitability become. We will endeavor to further enhance the advantages we now possess in all our marketing, products, and services with the aim of hearing from our customers that, “the Sumitomo Forestry Group is the one to realize the ‘rich and warm’ living space we have been seeking.”

No.1

We will increase the Sumitomo Forestry Group's presence in growth business areas and geographical regions.



The External Environment Surrounding the Housing and Housing-Related Businesses

—We See Great Opportunities,

but the Environment Still Remains Unfavorable

Housing starts in Japan peaked in fiscal 1997, at 1.63 million starts, then fell steadily through fiscal 2003. Housing starts subsequently began a mild recovery trend, driven by strong demand for built-for-sale houses, rising 2.5% in fiscal 2004 and 1.7% in fiscal 2005. However, in the Sumitomo Forestry Group's main market of owner-occupied housing, starts remain at a low level despite a one-off rise in fiscal 2004. Despite several promising factors—including (1) the increasingly dilapidated state of the stock of non-earthquake-resistant housing; (2) a living environment that lags behind that of other advanced countries; and (3) children of baby boomers entering their first home-buying years,— the current situation still does not permit optimism about significant latent demand turning into actual demand.

Efforts to Address the Situation and Achieve Differentiation

—The Importance of Accurately Assessing Customer Needs

The key is to overcome the competition by tapping what demand there is

Although the overall industry environment still does not permit optimism, this does not mean that we at Sumitomo Forestry think that growth is impossible. In our view, the key lies in how much and how surely we can tap the demand that we see regardless of the macro environment. In other words, we place a great deal of importance on increasing our market share. We are steadily achieving positive results in this respect, which

gives us confidence. The Group's share of owner-occupied housing starts was 1.78% in fiscal 1995, and has risen steadily since then, reaching 2.80% in fiscal 2005.

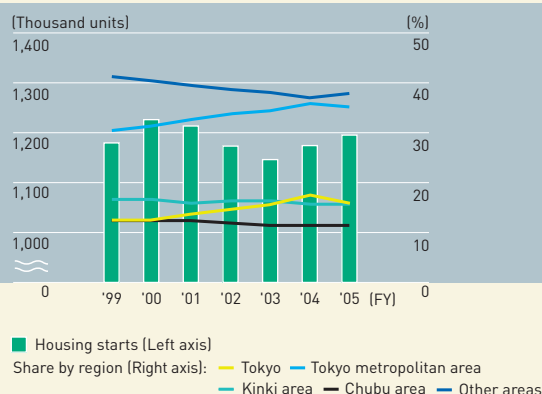
Differentiation in products and services has helped to increase market share

Essentially, this increase in market share means that our customers support us more than before, and that they feel a special attraction to Sumitomo Forestry's products and services that they do not feel toward those of other companies. In other words, the differentiation of our products and services has helped to strengthen the Sumitomo Forestry brand.

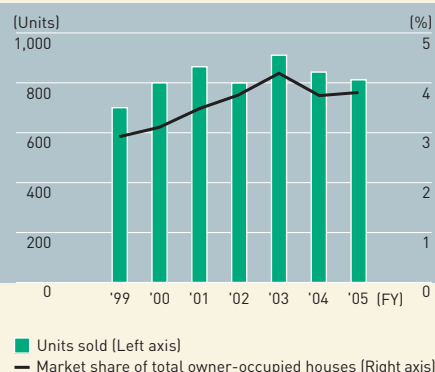
Differentiating Factor 1: Design and Product Strength

With lifestyles and values becoming ever more diverse, customers want things that are unique to them. Sumitomo Forestry has been putting effort into built-to-order housing with a high degree of design freedom. The Company has over 1,800 architects, and for each housing unit ordered, assigns an architect to work full time on its design in order to make the customer's dream home a reality. This enables us to give physical shape to our customers' vision regarding everything from overall house layout, exterior, and interior to details such as the width of staircases and the position of lighting fixtures. We have also increased our originality in terms of the materials we use, as we have raised the percentage of domestic timber used in our housing products to 41%, and have achieved a stable supply of specific high-quality timber using our network for timber and building materials procurement. Moreover, we have increased product quality in terms of performance, setting strict standards for air quality and noise and thermal insulation, as well as earthquake resist-

New Housing Starts Nationwide in Japan and Regional Breakdown



Custom-Built Detached Houses Sold by Sumitomo Forestry (Tokyo)



ance, durability, fire resistance, and security. In addition to these standards, we further ensure our product quality by conducting thoroughgoing quality management for each house and taking full responsibility for the work of our construction contractors.

Differentiating Factor 2:

A Thoroughgoing Customer-First Policy

One of the four action guidelines in our corporate philosophy is to act with customer satisfaction first and foremost in mind, and we are aiming to create houses that achieve 100% customer satisfaction. One of the most prominent manifestations of this corporate stance is our meticulous after-sales maintenance. In 1999, we established specialized customer service centers in each of our 54 offices nationwide and set up a system to provide telephone consultation 24 hours a day, 365 days a year through call centers staffed with specialist engineers after business hours and on holidays. In April 2003, we introduced the Long Support System, a maintenance program including regular upkeep and remodeling proposals that remains in effect for 60 years from the time of a home purchase. Sumitomo Forestry received a METI (Ministry of Economy, Trade and Industry) Minister Award for Exemplary Consumer Focus in fiscal 2005 in recognition of these efforts. In addition, the percentage of referral orders, which is an indicator of customer satisfaction topped 30% in fiscal 2005, in contrast to the historical average of around 15%.

Differentiating Factor 3:

Comprehensive Strength and a Track Record as Timber Professionals

Sumitomo Forestry has been living with and learning from forests and utilizing trees as a renewable resource for over 300 years, since its foundation in the 17th century. The Company has continued to practice sustainable forest management while broadening its

range of operations to include timber and building materials manufacturing and distribution, wooden house construction, and housing-related operations, maintaining timber and housing as the core of its operations. The Company began full-scale operations of custom-built wooden housing in 1975, and thus was not the earliest of Japan's major homebuilders to enter this business. However, thanks to its keen eye for wood and its broad wood building materials procurement capabilities, its technical capabilities—particularly its ability to leverage the qualities of wood in the homebuilding process—and its customer-first mindset, the Company has gained customer recognition as Japan's leading builder of custom-built wooden houses.

Strategies for Accelerating Growth and Improving Sustainability:

—Placing the Focus on Growth Regions and Business Areas

Strategy 1:

Further Expanding Our Market Share in Growth Regions

To further expand the lead we have achieved through our differentiation strategy, we intend to carry out an efficient business strategy that involves, in part, placing a priority on establishing operations in areas where demand is likely to increase substantially going forward, and investing resources in such areas. We plan to gradually expand our target regions to Japan's three largest urban areas, and to eventually include all major domestic cities. For the time being, however, we are carrying out measures aimed at increasing our competitiveness through a higher market share in the Tokyo metropolitan area, particularly Tokyo itself. As a stepping-stone to achieving this goal, we aim to record the largest share of owner-occupied housing starts in Tokyo by fiscal 2007. The Company currently has the second largest-share of owner-occupied housing starts in Tokyo, and our immediate goal is to increase housing starts to over 1,000 per year as quickly as possible (we were at 891 units as of fiscal 2004).

Net Sales and Recurring Income Targets for Priority Growth Businesses

(Millions of yen)	FY2005 (Actual)		FY2006 (Plan)		FY2008 (Target)	
	Sales	Recurring income	Sales	Recurring income	Sales	Recurring income
Overseas operations	43,478	1,765	46,000	2,200	52,000	3,700
Housing stock	32,034	1,111	37,200	1,500	45,000	2,300
Remodeling	25,418	723	29,800	1,200	36,500	1,800
Real estate transaction	6,616	388	7,400	300	8,500	500
Collective housing	47,993	826	43,400	600	54,000	1,500

Note: All figures are on a simple aggregate basis (i.e., prior to consolidation adjustments).

Background to and Current Status of the Tokyo Metropolitan Area Strategy

We aim to become the No. 1 company in terms of share of owner-occupied housing starts in Tokyo because construction starts in the Tokyo metropolitan area have remained consistently high, even in periods when they slumped in Japan as a whole, and because we expect them to remain high going forward. Moreover, while the total population of Japan is projected to peak in 2006, the population of the Tokyo metropolitan area is expected to continue trending upward through 2015—a full 10 years after population growth turns negative for the nation as a whole*—with the rate of decline in working population remaining small.

In addition, there are many densely built-up and irregularly shaped parcels of land in Tokyo, and a home-builder needs to have strong design capabilities including the ability to comply with various regulations. This condition allows us to fully demonstrate our design skill and helps us to differentiate ourselves from the competition. If we are able to achieve the top share of the market in the nation's capital, we think it will have a positive effect on our brand. We consider achieving this goal a milestone on the way to greater accomplishments, and once we achieve the top share in Tokyo, we will turn our attention to achieving the top share in the prefectures surrounding Tokyo, as well as the main prefectures of the Kinki and Tokai regions.

* The National Institute of Population and Social Security Research
"Japan's Future Estimated Population" (January 2002)

Efforts to Overcome Our Weaknesses

1) Developing Housing Products for Urban Areas

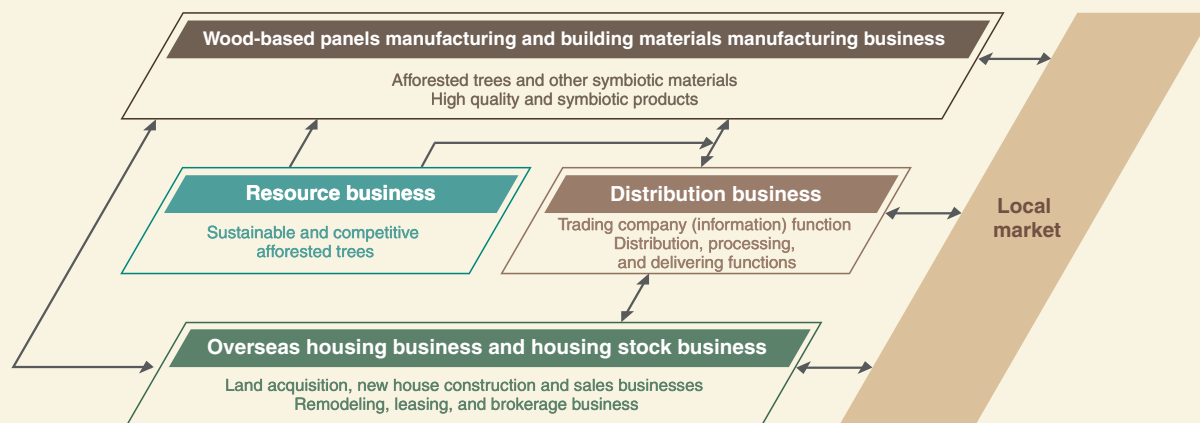
Our previous product lineup was not sufficient to meet the strong demand for three-story housing in urban areas. To bolster our lineup, in fiscal 2005 we launched sales of Proudio-BF, a housing product using the new "Big Frame" method for building three-story wooden houses. In this method, big columns bear the horizontal force, making it possible to attain sufficient strength with fewer walls, thereby greatly increasing freedom of planning, including the freedom to design floor plans with large open spaces. Moreover, Proudio-BF makes use of the skeleton-infill concept, which enables the layout to be changed in accordance with the occupant's lifestyle. We have thereby succeeded in creating a type of housing that can be utilized over several generations, helping to build up a stock of high quality housing.

2) Enhancing Our Sales Network

As part of our efforts to bolster our marketing capabilities in Tokyo, in fiscal 2005 we increased the number of salespeople assigned to the Tokyo area by 18, bringing the total to over 160. We also reviewed our organization, and in April formed a Tokyo Housing Business Division, thereby establishing a system for comprehensively promoting our strategy for all of the Tokyo metropolitan area. In addition, we have established a presentation team tasked with increasing the proposal capabilities of the sales staff, as well as a new marketing group dedicated to tapping corporate sales routes. Going forward, we plan to enhance our efforts to target the approximately 14,000 customers for whom the Group has in the past built houses in Tokyo.

Along with these personnel enhancements, we are working to renovate existing model home displays and build new ones and to strengthen our sales bases. In fiscal

Relations among Overseas Operations



2005 we built three new model home displays and renovated eight others, and in fiscal 2006 we plan to build one new model home display and renovate three others, bringing the number of sales bases in Tokyo to 28. In addition, we are putting greater effort into marketing through means other than our model home displays, such as through “Sumai Haku” housing fairs and other customer-drawing events.

3) Bolstering Land-Related Measures

We are working to strengthen our ability to win customers —primarily first-time homebuyers— who do not have their own land through the Tochi Kara Support System, which supports homebuyers in finding the right plot of land for construction in cooperation with local real estate agents. This business accounted for 7.9% of all orders in fiscal 2003, rising to 11.4% in fiscal 2005.

In addition, as part of our land-related measures, in fiscal 2005 we established a real estate team and with the goal of achieving the top share of owner-occupied housing starts in Tokyo, laid out the framework for accelerating land purchases. In fiscal 2006, we plan to purchase a total of 50 land parcels, for use in our measures to win customers without their own land, including land for constructing built-for-sale housing and land for sale with condition to build.

Strategy 2:

Further Cultivating Growth Business Areas

In terms of Sumitomo Forestry’s growth as a company, our most important task is to increase the earnings of our mainstay business. However, it would be decidedly

unhealthy for the Company to become too heavily weighted toward one field. With this in mind, and to further accelerate top-line growth and enable sustainable growth over the longer term, we have identified three businesses —overseas operations, housing stock business, and collective housing business— as priority growth businesses, and are allocating resources to these businesses on a priority basis. Although all three of these businesses are quite small at present, we boast the fact that we established the housing business as a new undertaking in 1975, and the Housing and Housing-Related Business now accounts for 56% of consolidated sales. We have steadily established secure footholds in these priority growth businesses based on meticulous surveys, and going forward we plan to prudently, yet aggressively, build out these businesses.

Overseas Expansion

We are expanding our overseas operations, primarily our building materials manufacturing operations in the Pacific Rim. Through the importing operations of our timber and building materials distribution business, we have built a relationship of trust with various nations, and have expanded overseas operations based on thorough surveys of the political and economic situations in these nations. This has enabled us to achieve a strong track record and a long history in this area. With some of our overseas manufacturing bases having histories that go back over 30 years, we have built solid regional bases. Today, we view the emergence of various Asian nations —most notably China— and the growth of the U.S. housing market as major new business opportunities.

State of Progress in Overseas Housing Operations

	North America	China
Date launched	September 2002	November 2004
Results	Local joint-venture Bennett-SFS L.L.C. established; 56 houses in eastern Seattle sold as of the end of 2004	30% equity stakes taken in Paragon Wood Product (Dalian) Co., Ltd. and Paragon Wood Product (Shanghai) Co., Ltd.
Current status	Roughly 200 built-for-sale houses currently being constructed (as of August 2005)	Participating in a high-end detached housing project in Shanghai since February 2005, with construction beginning in July
Target	120 houses/year	To be determined
Policy going forward	Brand creation and expansion into peripheral businesses and other regions to be considered following establishment of business model	Establishment of cooperative relations with leading developers in the Shanghai region, leading to increased awareness of the Group in China, spread of wooden housing, and future expansion of operations

Primarily through our new International Business Headquarters, established in April 2004, we are working to expand our new businesses by leveraging the expertise and networks accumulated by our existing businesses, while closely cooperating with various bases.

1) Strategy for Further Expanding the Timber and Building Materials Business

The Timber and Building Materials segment supplies timber and building materials not only to the Japanese market, but also to various Asian nations, the U.S., and Europe through a local affiliate in Singapore and US subsidiary Pacific Wood Products L.L.C. It is also working to open new markets by aggressively conducting, through third-country trade, export-import operations in areas where the housing market is likely to be buoyant going forward.

In fiscal 2005, Sumitomo Forestry formed a strategic operating alliance with Dongwha Holdings Co., Ltd. Korea's largest building materials manufacturer, and acquired 10% of the outstanding shares in Dongwha Enterprise Co., Ltd., the core member of the Dongwha Holdings group. Through the alliance with Dongwha Enterprise Co., Ltd., which owns Korea's first MDF factory and its largest particleboard factory, Sumitomo Forestry aims to expand sales in Korea, and to accelerate the development of a wide-area market linking Japanese and overseas bases.

2) Expanding Housing Business in Promising Markets

We began building and selling detached houses built using two-by-four in the U.S. in 2002. In November 2004, we entered the wooden home business in China. In the latter market, the development of the housing market is a core element of economic policy, and in January 2004 the Chinese government implemented the Code for

Design of Timber Structures. In our view, this raised the profile of wooden housing in China, and helped to create an environment for the adoption of wooden housing on a full scale.

There are many issues that must be solved to expand housing operations in overseas markets, which have cultures and operating environments different from Japan's, and we believe we are not underestimating these issues. To enable the steady expansion of new operations, we confirm the profit potential of such operations through feasibility studies, minimize risk by promoting diversification in all aspects of operations, and formulate plans cautiously.

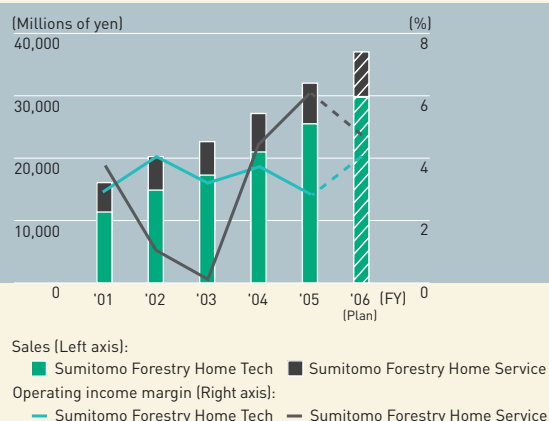
Expansion into Peripheral Fields

1) Housing Stock Business

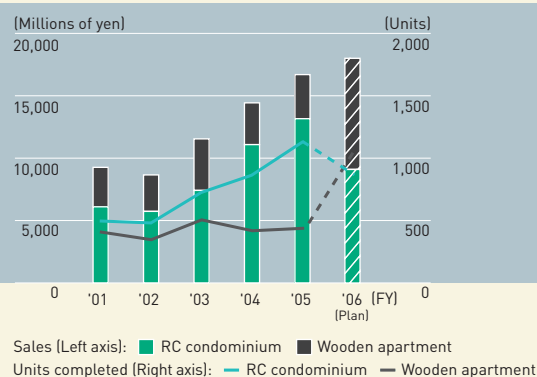
Better housing quality has lengthened the replacement cycle and made it common for people to move or rebuild not because their existing home has become dilapidated, but because they have entered a new stage of life. We believe demand for remodeling and the number of existing homes on the market will increase significantly going forward. The emphasis of the nation's housing policy has shifted from new construction to the utilization of existing stock, and we think this trend will become more pronounced. Wooden houses account for over 90% of Japan's 26-million-unit stock of detached houses, and as experts in the field of wooden houses, we think we are in an extremely advantageous position in this growth market.

Because we expanded our network of business offices and strengthened our marketing capabilities in fiscal 2005, we delayed reaping some of the profits we otherwise might have realized. However, with the steady increase in sales, we aim to achieve our medium-term numerical targets (¥45.0 billion in sales and ¥2.3 billion in recurring income in fiscal 2008).

Housing Stock Business: Sales and Operating Income Margin



Collective Housing Business: Sales and Number of Units Completed



1. Remodeling Business

We have finished building out our business office network nationwide, and we are now working to bolster our sales capability so we can tap the market to the utmost. In fiscal 2005, we hired 102 salespeople and construction supervisors (primarily mid-career employees), bringing the total to 450. In addition, in Osaka we built our first model home display specifically for marketing our remodeling operations. As this has helped to boost renovation orders, proving highly cost-effective, we built a second such model home display in the Hyogo area, and plan to build others in the future.

2. Real Estate Transaction Business

Having close ties to the community is fundamental to our real estate transaction business, and in fiscal 2005 we continued working to augment our business office network in the Tokyo metropolitan area. We also added five locations (three in the Tokyo metropolitan area, one in the Kinki area, and one in the Chukyo area), bringing the total to 51. In addition, to enhance our ability to draw customers via the Internet, in November 2004 we launched Suminavi, an online marketing support system that uses weblogs to enable person-to-person communication between salespeople and customers. At present, Suminavi's content is limited to sales brokerage, but going forward we plan to add content related to leasing and remodeling.

2) Collective Housing Business

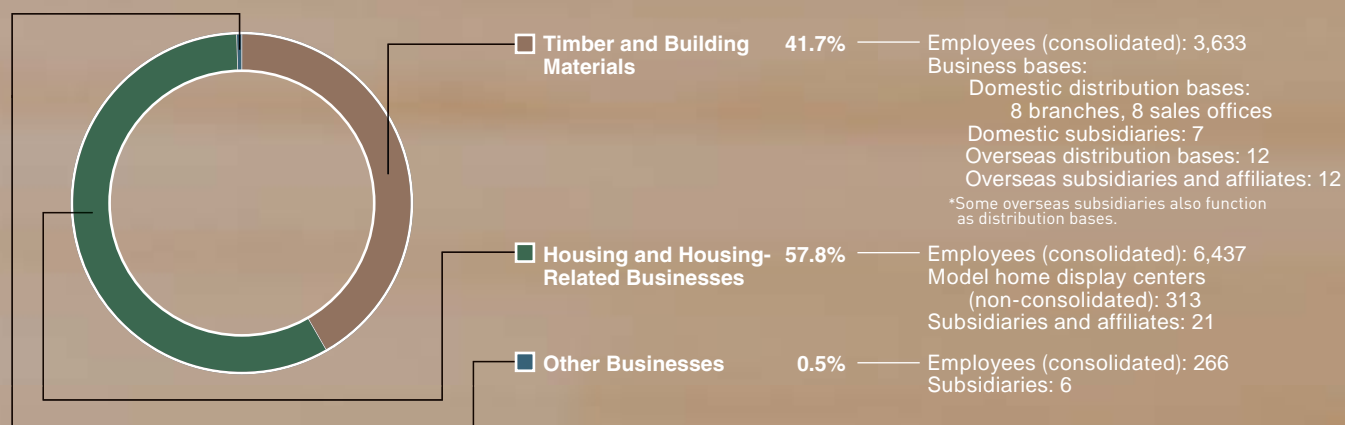
It is important to tap leasing demand in urban areas, particularly among younger customers. In the collective housing business, the Collective Housing Headquarters is working to increase benefits derived from tie-ups with Sun Step Co., Ltd., a company added to the Group in August 2003, and it is generating synergies not only in

lease management of leased buildings but also in joint marketing with Sun Step and in the provision of land data received from the owners of the leased properties it manages.

The collective housing business has eight business offices, located primarily in the three main urban areas. It plans to bring this number to 12, and to increase the number of employees to 300 by fiscal 2008. In fiscal 2005, it increased its workforce by 15, primarily hiring employees skilled in land-use consultation, bringing the total to 155.

As part of the effort to bolster our lineup of apartment products, we introduced Succeed M-trust, the Company's first post-and-beam wooden apartment building in which we can leverage our expertise accumulated through the detached housing business. We plan to strengthen and expand our apartment business going forward, and hope to increase the ratio of apartment orders to total orders of collective housing to 50% in the future. In addition, Sun Step expanded its short-term-lease condominium business, as it expects this market to grow, and currently has seven properties that it owns or sub-leases. Going forward, we will continue to invest aggressively in this area, while keeping a firm eye on land-use conditions.

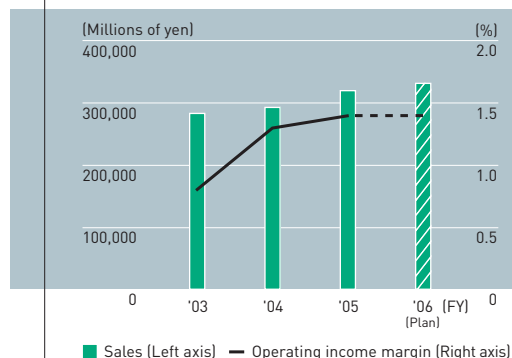
Net Sales and Contract Revenues Breakdown by Segment



(As of March 31, 2005)

Timber and Building Materials

Sales and Operating Income Margin



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

Business Environment for Fiscal 2005

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

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

Fiscal 2005 Results and Policies

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

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

Main Policies

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

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

—Engineered Wood Manufacturing

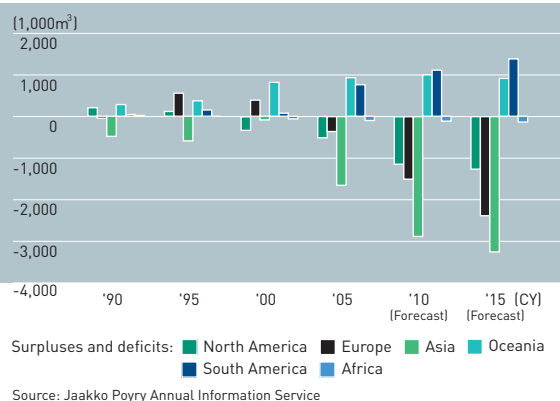
Engineered wood materials such as glued-laminated timber and wood-based panels vary very little in their quality and are functionally superior. They also allow for the usage of entire logs including those usually deemed unsuitable for

Segment Performance Highlights

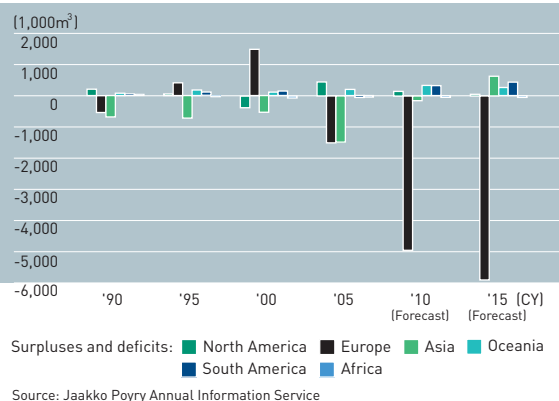
(Millions of yen)	FY2003	FY2004	FY2005	FY2006 (Plan)
Sales	283,517	293,220	320,255	332,000
Operating income	2,238	3,813	4,615	4,800
Assets	145,423	146,169	157,840	-
Capital expenditures	2,627	1,723	2,949	-

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

Global MDF Supply-Demand Balance



Global Particleboard Supply-Demand Balance



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

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

MDF (Medium-Density Fiberboard)

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

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

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

Particleboard

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

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

Main Types of Engineered Woods

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

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

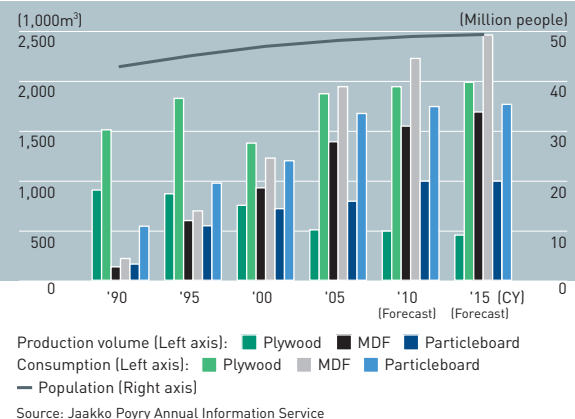
Sumitomo Forestry representative negotiating a log purchase with a broker



Structural glued-laminated timber "Super Cypress"



Production Volume and Consumption of Building Materials in South Korea



Super Cypress (Glued-Laminated Cypress Timber)

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

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

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

—Cultivating New Markets through Business Alliances and M&A

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

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

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

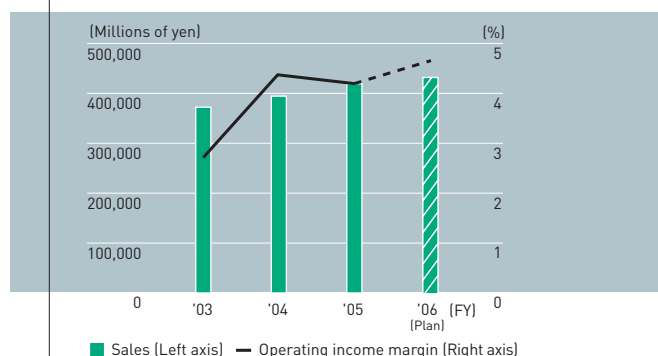
3. Improving the Efficiency and Quality of Our Domestic Distribution System

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

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

Housing and Housing-Related Businesses

Sales and Operating Income Margin



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

Business Environment for Fiscal 2005

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

Fiscal 2005 Results and Policies

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

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

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

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

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

Segment Performance Highlights

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

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



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

Main Policies

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

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

—Concentrating Management Resources in Sectors and Regions with High Demand

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

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

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

2. Strengthening Our Product Lineup

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

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

Products Designed for Second-Time Homebuyers and Feature Products

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

Main Lineup of Sumitomo Forestry's Housing Products

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

* Percentages of fiscal 2005 sales.

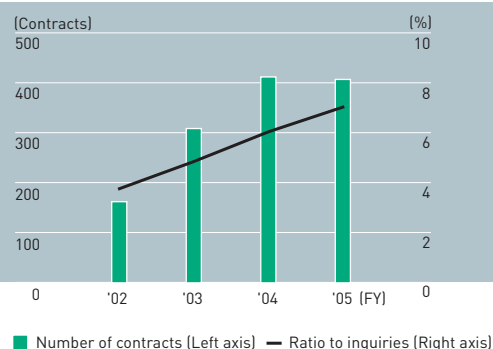
Proudio-BF (Exterior)



Proudio-BF (Frame)



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



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

Products Designed for First-Time Homebuyers

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

Three-Story Housing

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

3. Enhancing Our Marketing Capabilities

—Active Use of IT

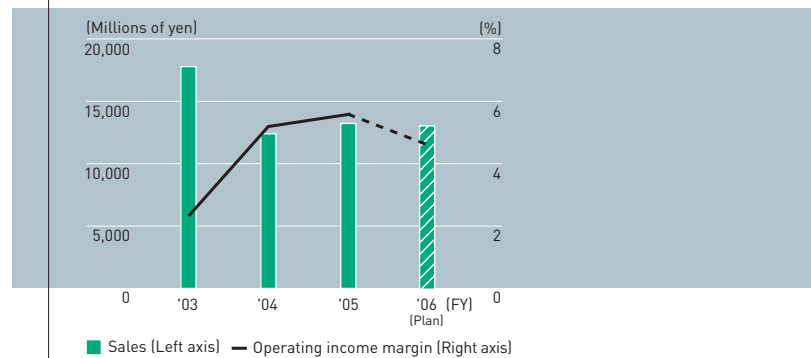
Sumitomo Forestry's bases for marketing are model home display centers and events like "Sumai Haku" housing fairs, where visitors can actually "touch the wood." In fiscal 2003, we reviewed our area strategy and consolidated our display venues. However, since then, we have built eight new venues only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

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

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

Other Businesses

Sales and Operating Income Margin



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

Review of Fiscal 2005 Operations

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

Policies and Prospects for Fiscal 2006 and Beyond

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

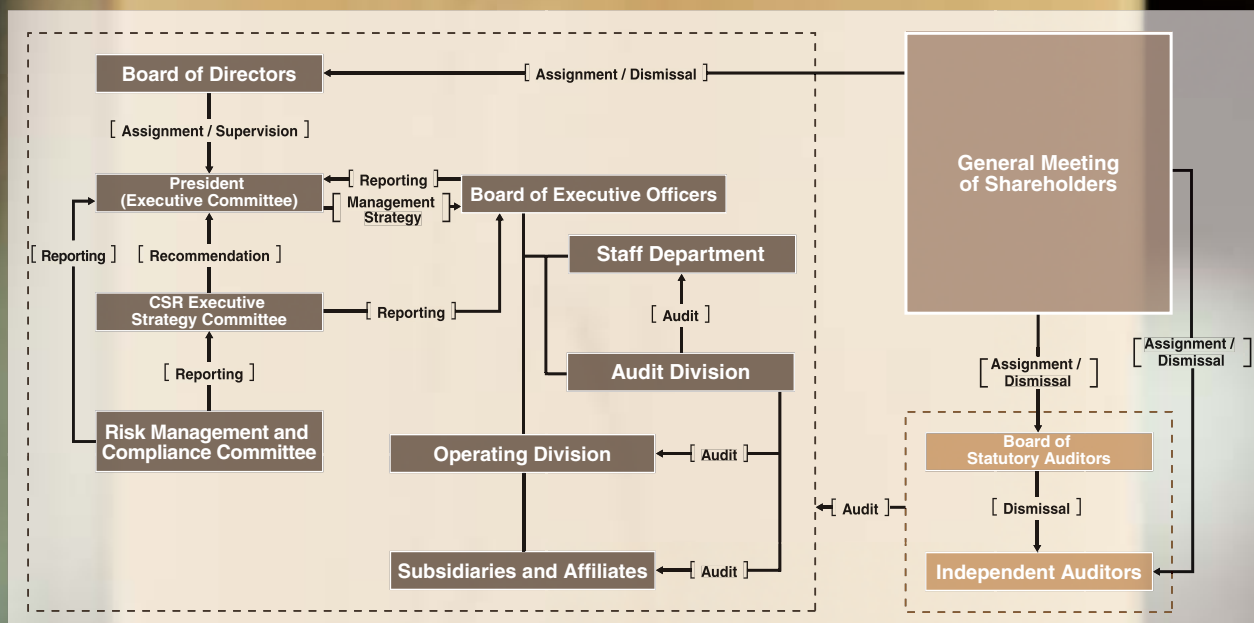
Segment Performance Highlights

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

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

Corporate Social Responsibility

Business Execution and Management Supervision Mechanism



Corporate Governance and Compliance

To ensure management transparency and prompt decision-making and business execution, we at Sumitomo Forestry have enhanced and strengthened our systems of corporate governance and compliance as one of our top priorities and are making continuous progress in this area.

Corporate Governance

In June 2002, Sumitomo Forestry introduced the executive officer system and separated the decision-making and supervisory functions from business execution functions. By doing so, we have worked to speed up management, enhance supervisory functions, and clarify responsibilities.

At the same time, we reformed our management structure in order to promote prompt and flexible decision-making to address the rapidly changing management environment. Meeting once a month in principle, the Board of Directors makes decisions regarding important management matters and reviews business results. The Board also performs supervisory functions related to business execution. The Company's business strategies are determined by the Executive Committee, which also meets once a month in principle. The Board of Executive Officers reports on the status of operations.

Under our auditing system, there are currently four statutory auditors, including two outside statutory auditors. To contribute to healthy and sustainable management of the Company, the statutory auditors attend the Board of Directors and the Executive Committee meetings. They also hold a meeting once every three months to exchange views with the representative directors regarding a variety of issues associated with corporate governance. Internal audits are undertaken by the Audit Division. The Division works with the auditors to conduct internal audits of the entire Group regarding the appropriateness of ordinary business affairs. Furthermore, to enhance the functions of the auditors, we have

amended our Auditing Regulations for Statutory Auditors and Code of the Board of Statutory Auditors in accordance with the Code of Kansayaku Auditing Standards of the Japan Corporate Auditors Association, which was revised in February 2004. With these efforts, we are striving to further enhance the quality of our corporate governance system.

Compliance and Risk Management

We believe that doing our utmost to meet the expectations of our various stakeholders is the fundamental basis on which we can build trust in society. As such, compliance is our priority management issue.

In 1997, we established the Sumitomo Forestry Ethical Charter, as well as the Ethical Action Guidelines for promoting compliance. To improve awareness among all employees, the Ethical Charter is included in employee handbooks and we run a column on compliance-related issues in the Group's in-house monthly newsletter and on the intranet. In addition, we have established an internal reporting system, Compliance Counter, through which employees can anonymously provide information the General Manager of the General Administrative Division and a company lawyer regarding potentially illegal acts by the organization or its employees, and activities contrary to corporate ethics. Through such measures, we strive to detect and resolve issues promptly that are difficult to manage under normal business operations.

To deal with risk management issues, we have established a Risk Management and Compliance Committee headed by the General Manager of the General Administrative Division to examine new risks that arise as business environments change, and to draw up and give guidance on countermeasures for such risks. We have also set up a dedicated Emergency Hotline for all Group employees to enable them to act quickly and appropriately in emergency situations. In addition, we have set a rule that emergency situations must be reported to the president within two hours. Thus, we have created a system under which the top management takes the initiative in our efforts to manage risks.

Activities Contributing to the Environment and Society



The history of the Sumitomo Forestry Group goes back to the 17th century when the Sumitomo family started the management of neighboring forestlands around the family-owned Besshi Copper Mine in Shikoku region. Timber was harvested to support mining operations that required wood for construction, piling, and fuel. For more than 300 years since then, Sumitomo Forestry has lived with, learned about, and appreciated the great qualities of wood and forests. Through such experiences, we have developed the practice of "sustainable forestry," in which we have continued to plant and produce timber on a permanent basis in order to respect the functions of forests that provide social benefit. This stance of prioritizing sustainability has been passed down to our present Group and is steadily upheld in our current business operations.

In order for the Group to demonstrate this stance clearly and continue to grow while coexisting with society, we will shift to a management that places corporate social responsibility (CSR) as its cornerstone. To this end, we established the CSR Promotion Office in April 2005 to implement a system under which the entire Group can work together on the issue of CSR. Going forward, we will place the concept of sustainability at the foundation of all of our corporate activities. While maintaining a balance between the economy, society, and the environment, we will develop our "total housing and living-related business" that will contribute to a fulfilling future. By reviewing our various businesses from the viewpoint of CSR, we will strive to improve our corporate value and brand image.

Environmental Efforts through Our Business

Environmental Management

Environmental Management System

Placing environmental efforts as one of our top management priorities, we at Sumitomo Forestry have been developing since fiscal 1996 an Environmental Management System (EMS) based on the ISO 14001 standard. We were the first to obtain this certification in the housing industry in 1997. Since then, we gradually upgraded our certification to cover all domestic business divisions, and in August 2002, we renewed it to a general certification for the whole Company. We have recently extended the scope of general certification to four of our domestic group companies as well. In addition, three overseas companies have received the ISO 14001 certification.

Furthermore, in order to incorporate our environmentally sound activities into our daily business operations so that these activities will be continued in a sustainable manner, we have built and put into operation since fiscal 2005 an environmental management system based on our budget control system. Since the Kyoto Protocol took effect, we will work in fiscal 2006 toward achieving the goal for the entire Group of reducing CO₂ emissions, the main cause of global warming.

Environmental Accounting

To promote even greater efficiency and effectiveness in the environmental conservation activities that are part of our business management, we are working to accurately grasp, in a quantitative manner, the costs associated with environmental protection and its effects. We began publicizing the results of our analysis in the 2001 Environmental Report. In fiscal 2005, costs related to the disclosure and operation of environmental information as well as green procurement increased, causing a drastic rise in the costs of our environmental management activities. However, costs in other areas have decreased.

Sustainable Forest Management and Promoting the Use of Domestic Timber

In Japan, Sumitomo Forestry holds 40,497 hectares of forests (49% planted forests, 42% natural forests) covering one-thousandth of Japan's land area. We conduct sustain-

Fiscal 2005 Environmental Accounting

Category		Conservation costs (Millions of yen)		Effects
		Cost	YoY change	
Business area	Global environmental conservation	552	-18	Amount of CO ₂ absorbed by Group-owned forests: 231,605t-CO ₂ , etc.
	Resource recycling	3,826	-37	Recycled volume of wood discarded from house construction work: 26,650t. Discarded wood recycled through the distribution business (expressed as volume of chips): 687,605m ³
Management activity		406	+304	Rate of reuse and recycling of used PCs: 100%
Research and development		232	-73	Commercialization of "Big Frame Structural Method," etc.
Social contribution		70	-25	"Manabi no Mori" volunteer activities at Mt. Fuji: 160 participants (held 7 times) Forester House: 4,632 visitors (study groups held 3 times)
Total		5,085	+150	

able forest management in all these forests by keeping the annual yield volume below the volume of the annual growth, and preserving the various ecological functions of the soil, water, and other areas of the forest. We are also giving consideration to the local ecosystem by collecting only as much timber as is needed through selective cutting instead of clearing cutting.

In Japan, the forestry industry is unable to maintain cost-competitiveness due to high labor costs and delays in mechanization. While the Japanese forestry market is the second largest in the world, imported timber meets most of the domestic demand. As a result, the conditions in domestic forests are deteriorating, and there is a need to revitalize the forestry business from both environmental and economic perspectives. For all our housing products other than regional products, we use Japanese cypress for posts and foundations, and have raised the ratio of domestically grown timber to 41%. We also contribute to the advancement of the Japanese forestry business by actively using timber from our Group-owned forests such as larch from the Hokkaido region or cypress from the Shikoku or Kyushu regions.

Environmentally-Friendly Products

Effective Use of Timber Resources

Through technology to improve durability and precision, we are actively making use of resources such as thinned or unused wood that only had limited use in the past. For example, end pieces or thinned wood discarded during lumbering can be used to create Lattice Panels, which are standard materials used as bases for walls in Sumitomo

Forestry's Homes. They are highly durable and air permeable, and they allow for effective use of timber resources and improved housing quality.

We are putting forth efforts to use resources effectively not only in terms of our individual products, but also in our overall manufacturing systems. For example, Nelson Pine Industries Ltd. (NPIL) of New Zealand only uses Radiata Pine trees that have been planted according to developed plans. Parts that are relatively thick and straight are used to produce Laminated Veneer Lumber (LVL) and other parts are processed to manufacture Medium-Density Fiberboards (MDF). The bark and the waste material discarded during the manufacturing process are used as fuel. Through this process every part of the tree is used.

In the domestic arena, a timber-drying system, MIZ-DAS, was developed by Sumitomo Forestry's Tsukuba Research Institute. Japanese cedar is high in moisture content and difficult to dry. However, this system has made it possible to dry cedar in a short period of time while creating very little cracking. As a result, we have succeeded in lowering the amount of energy used for drying, and we are effectively using timber resources by reducing the volume of nonstandard products.

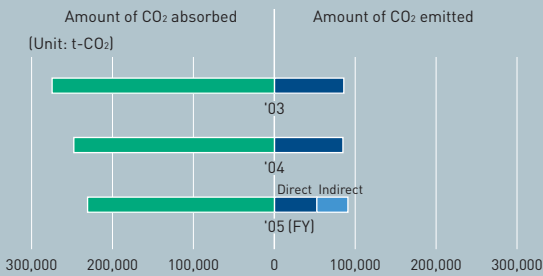
Energy-Saving Homes

In addition to reducing the burden on our environment by addressing the issues regarding building materials, we at Sumitomo Forestry strive to raise the energy efficiency of the houses we build. We use insulating agents and construction methods for external ventilation in order to reduce energy consumption and CO₂ emission. Through

Environmentally-Friendly Building Materials

Product	Timber used	Characteristics
Wall lining "Lattice Panel"	Thinned wood from Japanese forests	Combines cedar pieces, etc. in a lattice pattern to create high durability and air permeability.
Glued-laminated cypress timber "Super Cypress"	Thinned wood from Japanese forests	Can achieve better durability and precision than solid materials while maintaining the positive features of cypress.
Glued-laminated larch timber	Larch from Group-owned forests	Drying technique developed for larch, which usually warps easily and is difficult to use, is used for laminated wood.
Particleboard	Waste wood from plywood plants	Waste material is broken down into flakes, mixed with a bonding agent, and formed into panels. Highly versatile.
Plywood made of domestically-grown timber	Japanese cedar	The latest equipment is used to manufacture plywood using Japanese cedar, which is normally difficult to dry.

CO₂ Absorption by Group-Owned Forests vs. CO₂ Emissions by Group Businesses



Tree planting in Indonesia



Students who received scholarships from the KTI Educational Foundation



these methods, we have been successful in reducing heat loss by up to 60%, compared to the base standard of the Government Housing Loan Corporation.

Green Procurement

To reduce the burden on the global environment caused by the housing construction business, Sumitomo Forestry created its own Green Procurement Guidelines. These guidelines have been put into use during resource procurement since March 2004. They were reviewed in fiscal 2005, in line with the revision of the JIS standard and Procurement Standard based on the Law on Promoting Green Purchasing. With the cooperation of partner companies, 80% of our business partners' and 96% of our products now meet these evaluation standards.

Reduction of Greenhouse Gases and Waste Material

CO₂ is the main cause of global warming. Thus, in order to reduce such emissions, we are studying the volume emitted through our business activities, as well as the absorption rate by our domestic Group-owned forests. In fiscal 2005, the emission rate for the entire Group was 90,433 tons. Of this amount, 62.3% was from housing production and construction operations, while 21.6% was from manufacturing and processing of structural members and materials.

The absorption rate of CO₂ by our domestic Group-owned forests was 231,605 tons, approximately 2.5 times more than the amount we emitted.

As part of our effort to reduce waste material, we have established our own wood chip (construction waste material) recycling system. Our wood chip recycling rate for fiscal 2005 was 84% for new construction sites, and 89% for demolition sites. We aim to reach a rate of 95% for demolition sites by 2005, five years earlier than the goal set by the government. Furthermore, we have nearly reached the pre-cut rate of 100% for main construction material, thereby working to reduce and appropriately dispose of waste material discarded in the construction of new houses. In the future, we will also establish methods for recycling roof tiles, plasterboards, and other compounds that are removed during demolitions.

Efforts as a Corporate Citizen

The Sumitomo Forestry Group takes part in activities that contribute to our regional society by utilizing our knowledge and experience as forestry experts. Our main activities include afforestation and other ecological restoration efforts, as well as the provision of educational assistance to mainly elementary school aged children.

Main Social Contribution Activities

Activities		Location	Description
Afforestation/ Reforestation	Reforestation volunteer activity at Mt. Fuji "Manabi no Mori"	National forest, south of Mt. Fuji	Afforestation of species naturally grown at the foot of Mt. Fuji since April 1998. Total number of planted trees: 332,950,000. Also, the inhabitation of plants, birds, and animals in the area are being monitored. Duration: 1991 to March 2004 (13 years). Restored approximately 277ha of forest. (Total planted area: 503ha; total number of trees planted: 738,000)
	Tropical rainforest regeneration project	East Kalimantan, Indonesia	
Education	Forester House	Besshi Mountain, Ehime Prefecture	Exhibition and experience-based workshops to offer information on forests and forestry.
	Sumitomo no Mori Ecosystem	Besshi Mountain, Ehime Prefecture	Forest development aiming at creating a new type of forest management. Provided opportunity for experience-based workshops by opening the Forester House and Group-owned forests to the general public.
	KTI Educational Foundation	Indonesia	Established in 2000 for the purpose of providing scholarships to elementary and junior high school students who are unable to receive education due to financial difficulties. In 2004, scholarships were given to 74 elementary and 29 junior high school students.

Board of Directors, Auditors, and Executive Officers



Hideyuki Kamiyama
Managing Executive Officer

Shoichi Takahashi
Senior Executive Officer

Kazuo Kai
Senior Executive Officer

Hideki Nose
Managing Executive Officer

Akihiro Ueda
Vice President and Executive Officer

Ryu Yano
President and Chief Executive Officer

Kanji Sugano
Vice President and Executive Officer

Directors

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

Statutory Auditors

Shuji Kitamura
Toshio Kohigashi
Hiroshi Miki
Satohiko Sasaki

Executive Officers

President and Chief Executive Officer
Ryu Yano

Vice Presidents and Executive Officers
Kanji Sugano
Akihiro Ueda

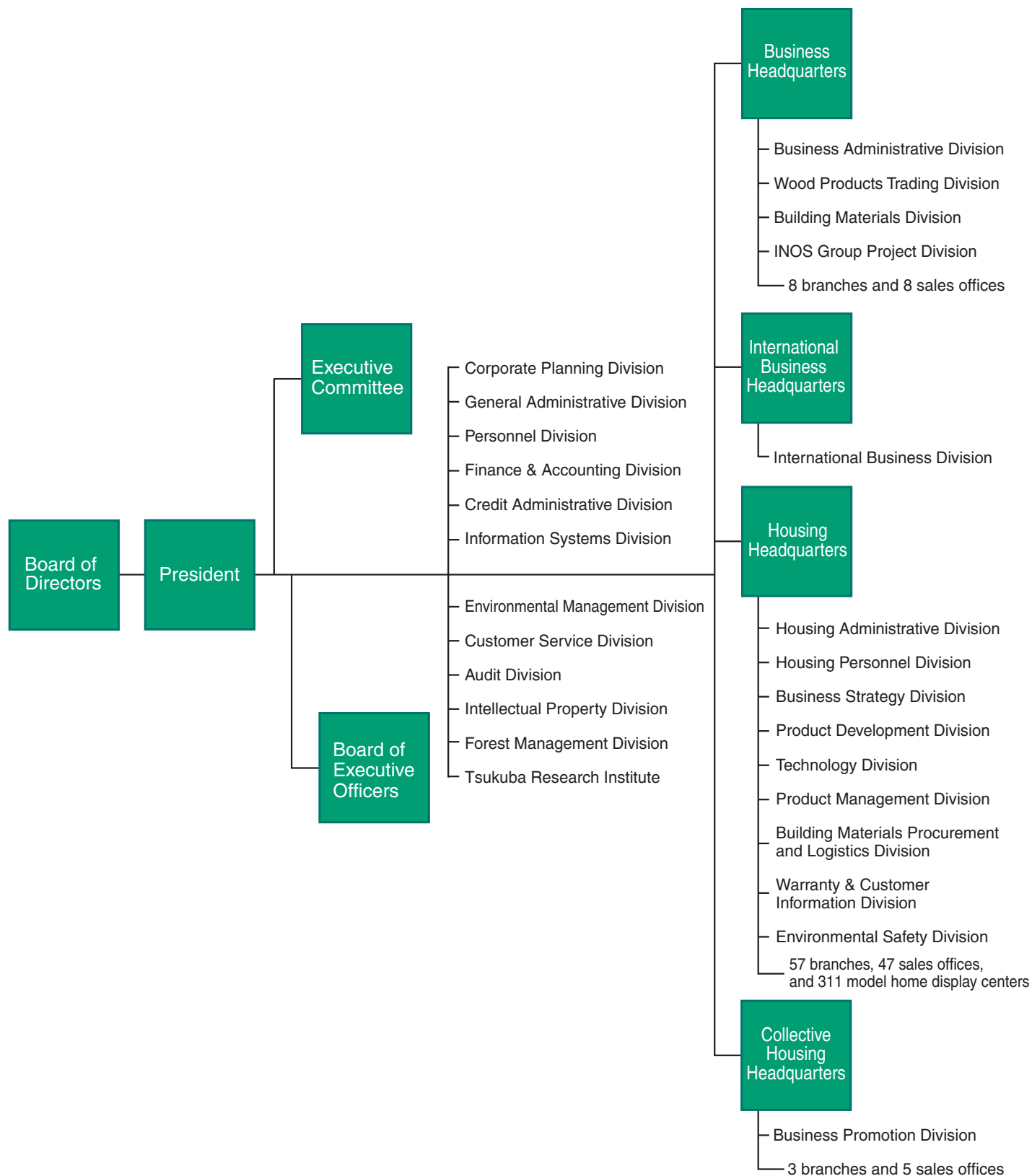
Senior Executive Officers
Kazuo Kai
Shoichi Takahashi

Managing Executive Officers
Hideki Nose
Hideyuki Kamiyama
Hideo Kanai

Executive Officers
Ryuichi Takayama
Shinichi Miyake
Mamoru Inoue
Yasuyoshi Ishiwatari
Masahiro Nishimura
Josuke Toyoda
Shigehiko Shiozaki
Hitoshi Hayano

(As of June 29, 2005)

Organization Chart



(As of April 1, 2005)

Overseas Offices and Subsidiaries

1. Seattle Office/Sumitomo Forestry Seattle, Inc.

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2. Vancouver Office

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3. Amsterdam Office

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Fax: 31-20-646-5372
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4. Jakarta Office

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

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John Hancock Tower,
Singapore 048580
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Fax: 65-6435-0151
E-mail: adm@sfspace.com.sg

6. Khabarovsk Office

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Khabarovsk 680000, Russia
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Fax: 7-4212-32-83-61
E-mail: sfc@inter.global-one.ru

7. Dalian Office

Senmao Building, 11th Floor,
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E-mail: dalian@sfc-cn.com

8. Tawau Office

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Fax: 60-89-761060

9. Kota Kinabalu Office

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Kota Kinabalu, Sabah, Malaysia
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E-mail: sfcwku@tm.net.my

10. Miri Office

P. O. Box. 493, 98007, Lot 231
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11. Sibul Office

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12. Auckland Office/Sumitomo Forestry NZ Limited

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

13. Nelson Pine Industries Limited

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Fax: 64-3543-8890
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14. PT. Kutai Timber Indonesia

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15. Probolinggo Factory

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16. Surabaya Branch

P. O. Box. 306, Surabaya, Jl. Kusuma
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17. Samarinda Branch

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Fax: 62-541-741967

18. Alpine MDF Industries Pty Ltd.

Lot-1 Crosher Lane, Wangaratta
VIC 3677, Australia
Tel: 61-3-5721-3522
Fax: 61-3-5721-3588
Email: enquiries@alpinemdf.com.au

19. Pacific Wood Products L.L.C.

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Fax: 1-425-885-0057
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Affiliates

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21. Jakarta Office

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22. PT. AST Indonesia

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Tel: 62-24-8664800
Fax: 62-24-8664801
E-mail: asti@ast.co.id

23. Bennett-SFS L.L.C.

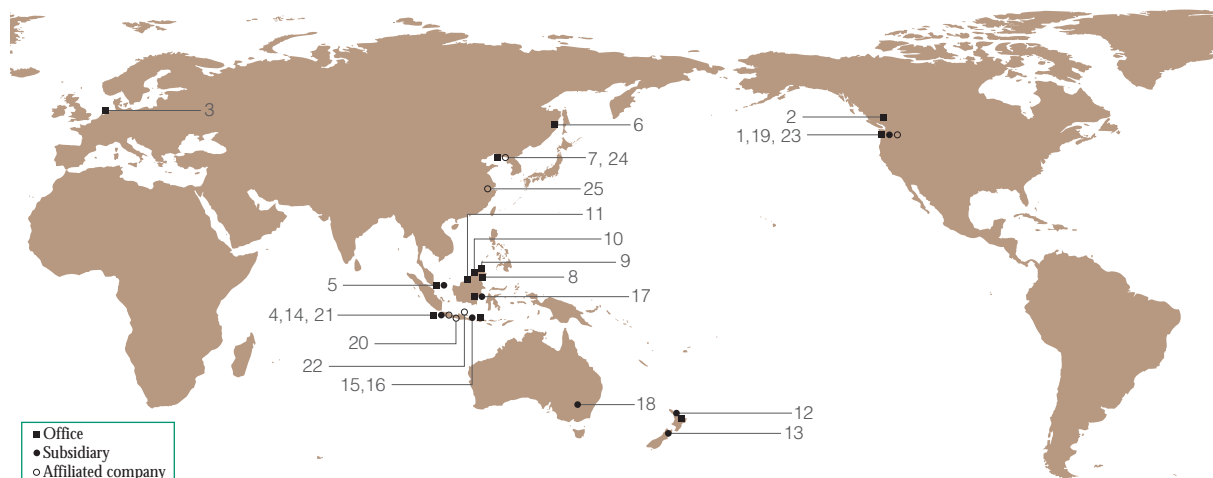
c/o Sumitomo Forestry Seattle, Inc.
11235 SE 6th Street, Suite 120,
Bellevue, Washington 98004, U.S.A.
Tel: 1-425-454-2355
Fax: 1-425-454-1106
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24. Paragon Wood Product (Dalian) Co., Ltd.

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116001, PRC
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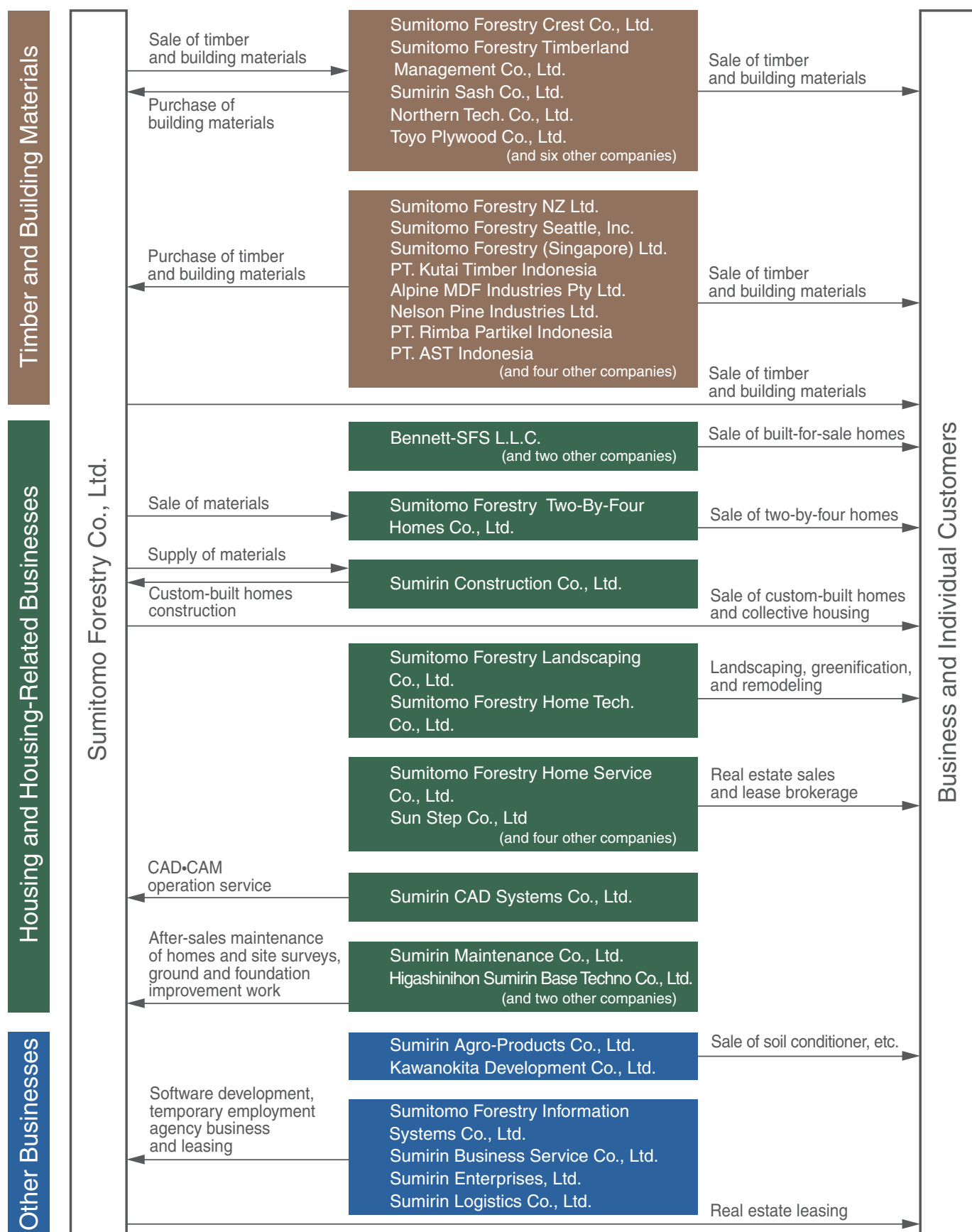
25. Paragon Wood Product (Shanghai) Co., Ltd.

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(As of August 1, 2005)

Subsidiaries and Affiliates



Consolidated subsidiary
Equity-method affiliate

(As of August 1, 2005)

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Ten-Year Summary

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

	Millions of yen (Unless otherwise specified)		
	2005	2004	2003
Operating Results:			
Net sales and contract revenues	¥ 723,193	¥ 673,779	¥ 645,100
Timber and building materials* ¹	320,255	293,220	283,517
Housing and Housing-Related Businesses* ¹	418,313	393,616	370,421
Other Businesses	13,185	12,350	17,882
Elimination and/or corporate	(28,560)	(25,408)	(26,721)
Gross profit	125,582	120,778	109,631
Selling, general and administrative expenses	107,116	103,201	100,858
Operating income	18,466	17,577	8,772
Timber and building materials* ¹	4,615	3,813	2,238
Housing and Housing-Related Businesses* ¹	17,530	17,150	9,920
Other Businesses	738	644	415
Elimination and/or corporate	(4,418)	(4,030)	(3,802)
Recurring income* ²	18,692	17,074	9,721
Net income (loss)	8,014	9,870	(15,439)
Financial Position:			
Total assets	¥ 370,684	¥ 369,755	¥ 357,322
Working capital* ³	67,579	66,377	60,260
Interest-bearing debt	15,580	19,929	16,497
Total shareholders' equity	152,500	146,269	129,727
Cash Flows:			
Cash flows from operating activities	¥ 6,685	¥ 25,962	¥ 19,734
Cash flows from investment activities	(12,895)	(7,646)	2,026
Cash flows from financing activities	(7,087)	(735)	(8,171)
Cash and cash equivalents at the end of the year	55,928	69,312	52,029
Capital Investment*⁴			
Tangible fixed assets	¥ 7,016	¥ 4,040	¥ 2,761
Software	1,673	1,468	2,077
Others	549	883	283
Total	9,237	6,392	5,123
Depreciation and amortization	6,452	6,447	5,985
Per Share Data:			
	Yen		
Net income (loss)	¥ 45.3	¥ 55.8	¥ (87.5)
Shareholders' equity	866.5	830.5	736.4
Cash dividends	13.00	13.00	10.00
Financial Ratios:			
	%		
Gross income margin	17.4	17.9	17.0
Operating income margin	2.6	2.6	1.4
Recurring income margin	2.6	2.5	1.5
Return on asset (ROA)* ⁵	5.0	4.7	2.7
Return on equity (ROE)* ⁵	5.4	7.2	(11.1)
Shareholders' equity ratio	41.1	39.6	36.3
Interest-bearing ratio* ⁶	9.3	12.0	11.3
Current ratio	137.4	135.7	132.6
Interest coverage ratio [times]	18.6	21.9	18.3

Notes: 1. Starting in fiscal 2001, the profits from transactions in housing materials have been included in the Housing and Housing-Related segment; they were 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 activities. 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 activities.

3. Working capital = Current assets – Current liabilities

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

5. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

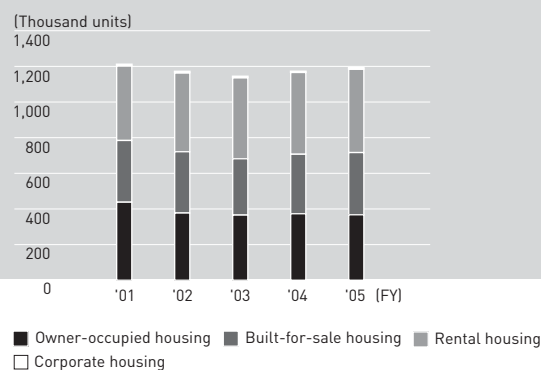
ROE = Net income (loss) / Shareholders' equity

6. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

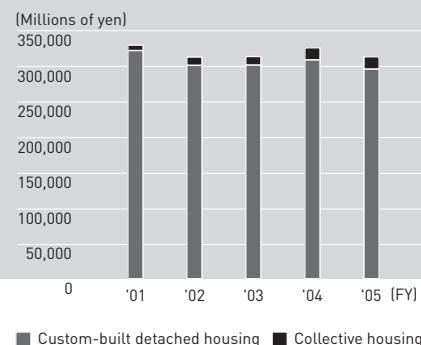
Millions of yen (Unless otherwise specified)						
2002	2001	2000	1999	1998	1997	1996
¥ 644,730	¥ 682,375	¥ 699,594	¥ 620,615	¥ 713,728	¥ 817,949	¥ 698,461
270,856	279,811	340,988	294,411	333,941	402,795	330,459
381,978	405,150	370,692	335,782	380,781	412,124	361,966
18,050	16,978	15,481	13,900	10,818	17,072	17,501
(26,154)	(19,565)	(27,568)	(23,480)	(11,812)	(14,043)	(11,465)
109,437	118,064	112,269	99,692	107,877	124,586	116,745
106,397	102,065	98,720	93,481	102,072	100,949	97,004
3,040	15,999	13,549	6,210	5,805	23,637	19,740
1,882	5,128	14,770	11,341	6,870	15,380	11,823
4,961	16,631	5,141	942	1,832	13,155	11,351
579	519	569	1,315	985	1,425	1,721
(4,384)	(6,279)	(6,933)	(7,388)	(3,882)	(6,324)	(5,155)
3,731	16,908	12,541	6,305	6,694	25,500	20,728
465	6,994	5,708	134	2,145	13,158	10,886
¥ 365,531	¥ 371,102	¥ 360,935	¥ 346,293	¥ 341,325	¥ 430,217	¥ 397,202
60,477	61,319	68,892	71,746	62,992	56,099	41,614
18,124	24,517	35,720	40,059	47,188	54,076	50,891
147,440	150,979	144,914	139,301	140,357	139,353	128,103
¥ 17,332	¥ 3,468	¥ (3,281)	¥ 26,715	¥ 9,561	¥ 20,946	¥ 10,889
(16,439)	(1,960)	(3,330)	2,068	(6,200)	2,952	(7,035)
(9,716)	(13,873)	(5,351)	(8,257)	(9,100)	1,597	2,508
38,873	47,476	59,916	71,971	51,302	57,090	31,594
¥ 7,705	¥ 4,448	¥ 4,373	¥ —	¥ —	¥ —	¥ —
2,194	1,889	1,264	—	—	—	—
225	252	303	—	—	—	—
10,124	6,590	5,941	4,556	13,172	11,448	10,171
5,289	4,551	4,756	5,060	5,057	4,944	4,842
Yen						
¥ 2.6	¥ 39.6	¥ 32.4	¥ 0.8	¥ 12.2	¥ 74.6	¥ 61.7
835.1	854.9	821.6	789.8	795.8	790.1	726.3
10.00	10.00	10.00	10.00	10.00	12.00	9.00
%						
17.0	17.3	16.0	16.1	15.1	15.2	16.7
0.5	2.3	1.9	1.0	0.8	2.9	2.8
0.6	2.5	1.8	1.0	0.9	3.1	3.0
1.0	4.6	3.5	1.8	1.7	6.2	5.4
0.3	4.7	4.0	0.1	1.5	9.8	8.9
40.3	40.7	40.1	40.2	41.1	32.4	32.3
10.9	14.0	19.8	22.3	25.2	28.0	28.4
131.8	131.1	137.7	141.6	137.4	121.0	117.0
7.8	22.6	18.6	5.8	4.3	17.5	8.9

Management's Discussion & Analysis

Number of New Housing Starts in Japan



Amount of Orders Received



Market Overview

The economy was favorable in the first half of fiscal 2005, ended March 31, 2005, driven by strong exports resulting from Asian economic expansion and robust capital expenditures due to an expansion of replacement demand on the production lines. The second half, however, saw the economy enter a period of short-term adjustment as exports slowed due to a strong yen, soaring crude oil prices, and inventory adjustments in the IT sector.

In the housing sector, the number of new housing starts rose 1.7% over the previous fiscal year to 1.193 million units, attributable to a recovery in consumption and employment as well as a surge in home purchases that accompanied the phasing-out of housing loan-related tax breaks. Leading the growth was the favorable performance of built-for-sale housing, although the number of owner-occupied housing starts decreased 1.6% to 367,000 units.

The timber and building materials industry experienced strong growth in the first half due to a housing market rally. Yet, disruption in the supply-and-demand balance in the second half caused a slump centered on timber-related products.

Consolidated Operating Results

1. Orders Received, Net Sales and Contract Revenues

Sales for all three business segments increased, causing consolidated net sales and contract revenues to rise by 7.3% year on year to ¥723.193 billion. Orders for custom-built detached houses declined 4.2% on a value basis to ¥295.757 billion, and decreased by 4.3% in unit terms to 10,076 units. This was due to a difficult environment for the industry as a whole as well as the fact that the Sumitomo Forestry Group withdrew from the wooden component housing business. The non-consoli-

dated unit balance of orders at year-end was almost the same as the level for the previous fiscal year.

2. Selling, General, and Administrative (SG&A) Expenses

Selling, general, and administrative expenses rose 3.8% over the previous fiscal year to ¥107.116 billion, a minimal change compared with the increase in revenues. Approximately ¥1.8 billion of the ¥3.915 billion increase was due to the introduction of a corporate tax assessment based on business size as well as increased advertising expenses for the parent company. For other companies in the Group, primary factors for the increase were: (1) the aggressive expansion of business bases and personnel employed by Sumitomo Forestry Home Tech. Co., Ltd., which specializes in home remodeling, and by Sumitomo Forestry Home Service Co., Ltd, which engages in real estate distribution; and (2) the extraordinary factor of a 15-month irregular period for fiscal 2005 at Sun Step Co., Ltd, which undertakes lease management.

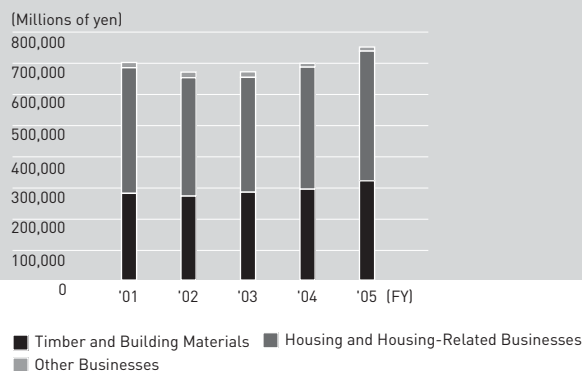
3. Operating Income

As a result, operating income rose 5.1% year on year to ¥18.466 billion. Income growth was recorded for all segments: Timber and Building Materials, Housing and Housing-Related Businesses, and Other Businesses.

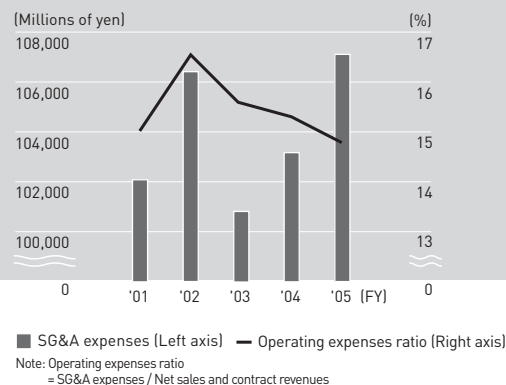
4. Non-Operating Income and Expenses and Recurring Income

Total non-operating income and expenses staged a rebound from a loss of ¥503 million in the previous fiscal year, recording a profit of ¥226 million due to increases in equity in earnings for our Indonesian building materials manufacturers, PT. Rimba Partikel Indonesia (PTI) and PT. AST Indonesia, which are accounted for under the equity method, as well as a

Net Sales and Contract Revenues



SG&A Expenses and Operating Expenses Ratio



decrease in losses on devaluation for real estate for sale. As a result, recurring income rose 9.5% year on year to ¥18.692 billion.

5. Special Gains and Losses

Net special gains and losses deteriorated by ¥11.015 billion over the previous fiscal year, bringing the current period loss to ¥3.026 billion. The primary reasons for this were a ¥3.284 billion loss on the liquidation of the wooden component housing business and the absence of a special gain booked for a decrease in obligations incurred for prior service, which was booked last fiscal year due to a revision of the retirement benefits accounting system. The absence of this gain for fiscal 2005 resulted in a large income decrease. Other significant factors aside from these losses were an ¥806 million special gain booked on the sale of investment securities, and a special loss of ¥509 million for moving expenses for the Sumitomo Forestry head office.

6. Net Income

Despite the rise in recurring income, net income for the year decreased 18.8% year on year to ¥8.014 billion, due primarily to the above noted deterioration in special net gains and losses. Net income per share decreased ¥10.53 to ¥45.28. Moreover, return on equity (ROE) decreased 1.8 percentage points to 5.4%.

Segment Information

1. Timber and Building Materials

Consolidated net sales for Timber and Building Materials rose 9.2% year on year to ¥320.255 billion (with ¥301.696 billion external sales) and operating income rose 21.0% to ¥4.615 billion. Factors leading to this expansion in consolidated net sales were: (1) 8.0% year-on-year growth in non-consolidated net sales to ¥20.575 billion due to strong sales of Russian logs in the timber segment, and imported plywood in the building materials segment; and (2) double-digit growth in net sales for all overseas consolidated manufacturing subsidiaries due to a recovery of the MDF and plywood markets. Operating income growth surpassed sales growth by a large margin, as overseas consolidated subsidiaries improved their profitability as a result of the market recovery as well as their efforts to strategically select sales territories and streamline production to achieve cost reductions.

2. Housing and Housing-Related Businesses

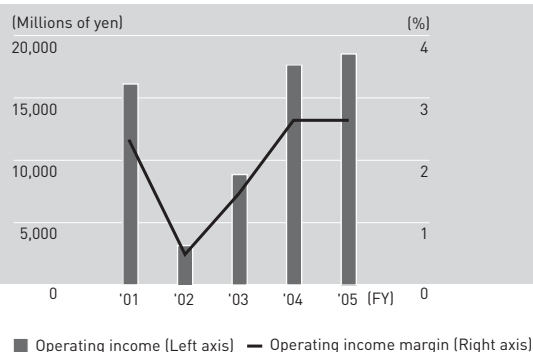
Consolidated sales for Housing and Housing-Related Businesses rose 6.3% year on year to ¥418.313 billion (with ¥418.031 billion external sales). Accordingly, operating income rose 2.2% to ¥17.530 billion. Factors underlying the increase in net sales were: (1) a ¥6.928 billion increase in the segment sales for the parent company; (2) an expansion in the scale of business at

Business Results by Segment

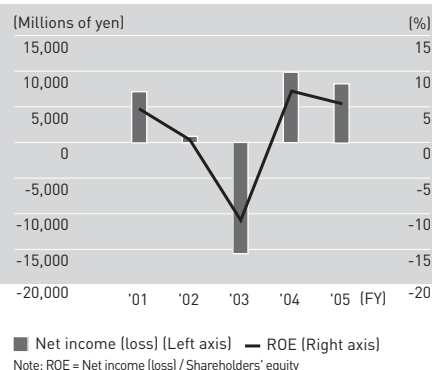
(Millions of yen)	Timber and Building Materials		Housing and Housing-Related Businesses		Other Businesses	
	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Net sales	320,255	293,220	418,313	393,616	13,185	12,350
Operating income	4,615	3,813	17,530	17,150	738	644
Operating income margin	1.4%	1.3%	4.2%	4.4%	5.6%	5.2%

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

Operating Income and Operating Income Margin



Net Income (Loss) and ROE



Sumitomo Forestry Home Tech. Co., Ltd. and Sumitomo Forestry Home Service Co., Ltd.; and (3) an irregular 15-month period for fiscal 2005 at Sun Step Co., Ltd. On the other hand, the operating income margin for this segment deteriorated compared to the previous fiscal year. This deterioration was mainly associated with stagnant sales for Sumitomo Forestry Two-by-Four Homes Co., Ltd. and increased SG&A expenses for the parent company due to rising advertising and promotional expenses for order promotions, expenses incurred for recovery from damage due to natural disasters such as typhoons and earthquakes, and increases in material expenses.

3. Other Businesses

Consolidated net sales for Other Businesses rose 6.8% year on year to ¥13.185 billion (with ¥3.466 billion external sales), while operating income rose 14.6% to ¥738 million, compared with the previous fiscal year.

Financial Position and Cash Flows

1. Financial Position

Total assets at the end of fiscal 2005 increased ¥930 million over the previous fiscal year to ¥370.684 billion. Current assets decreased by ¥4.262 billion to ¥248.066 billion, while fixed assets increased by ¥5.192 billion to ¥122.618 billion.

For current assets, real estate for sale increased by ¥4.780 billion due to the purchase of land for built-for-sale housing by the parent company in addition to an increase in accounts receivable that accompanied an increase in net sales for Timber and Building Materials. In contrast, there was a large decrease in marketable securities as well as cash and time deposits due to the

repayment of debt, which resulted in a decrease in surplus capital. The primary reasons for the increase in fixed assets were an increase in investment securities due to the purchase of shares in Dongwha Enterprise Co., Ltd., a South Korean building materials manufacturer, an increase in buildings due to the purchase of condominiums for lease by Sun Step Co., Ltd., and an increase in fixed assets due to the relocation of the parent company's head office.

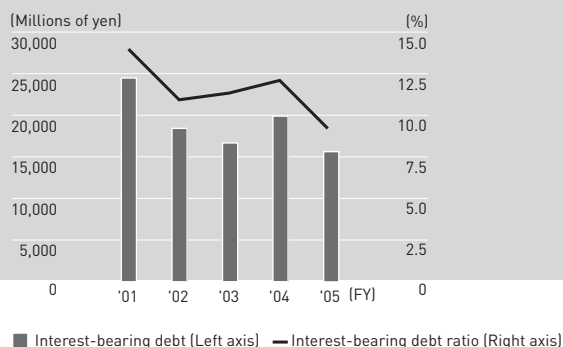
Total liabilities decreased by ¥5.437 billion to ¥217.663 billion. Current liabilities decreased by ¥5.464 billion to ¥180.487 billion, and long-term liabilities increased by ¥27 million to ¥37.176 billion. Debt decreased by a total of ¥4.289 billion, due to the payment in full of ¥3.6 billion of short-term debt on a non-consolidated basis as we established a commitment line of ¥10.0 billion, as well as the partial repayment of long-term debt mainly in overseas subsidiaries which achieved turnarounds. As a result, the balance of interest-bearing debt decreased by ¥4.349 billion year on year to ¥15.580 billion.

Total shareholders' equity increased by ¥6.231 billion to ¥152.5 billion, due to a ¥431 million increase in foreign currency translation adjustments, in addition to an increase in profits.

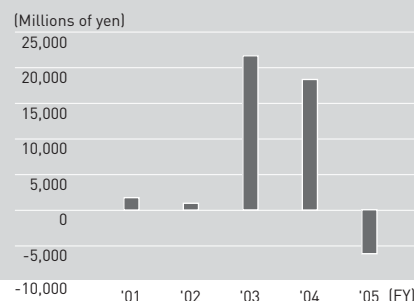
2. Cash Flows

Net cash provided by operating activities decreased by ¥19.277 billion year on year to ¥6.685 billion. The net decrease is mainly attributable to an increase in accounts receivable, which accompanied an expansion in imported products for the Timber and Building Materials segment, the acquisition of real estate for sale in the Housing and Housing-Related Businesses segment, and

Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows



an increase in the amount of corporate tax paid.

Net cash used in investment activities amounted to ¥12.895 billion. This was due mainly to the replacement of production equipment for subsidiaries engaged in the manufacture of building materials, the acquisition of tangible fixed assets including the purchase of short-term-lease condominiums and land, and an investment in a South Korean building materials manufacturer. Net cash used in financing activities increased by ¥6.352 billion to ¥7.087 billion. This was due to the repayment of short and long-term debt and payment of dividends. The balance of cash and cash equivalents at the end of the year totaled ¥55.928 billion, a decrease of ¥13.384 billion compared with the previous fiscal year.

Business Risk and Risk Management

The business results of the Sumitomo Forestry Group are subject to fluctuations in interest rates, land prices, and exchange rates and can be influenced by changes in the tax system and legal regulations in addition to market trends for housing, timber, and building materials. The Group continually works to minimize these risks by (1) making ongoing improvements to product competitiveness; (2) cost reductions; (3) diversification of operating regions and businesses fields; and (4) the use of forward exchange contracts. It must be recognized, however, that we cannot completely avert these risks.

1. Fluctuations in Interest Rates, Land Prices, and Exchange Rates

Interest rate increases, particularly with respect to long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom

take out loans for the purchase, and for customers who build collective housing for the effective use of their land. A forecasted rise in interest rates can result in a surge in home purchases ahead of the rate hike as consumers seek to avoid higher loan costs. This, however, may be followed by a backlash after the rush has ended. Rising land prices can have a negative effect on consumer appetite to purchase land; conversely, falling land prices can cause a decline in demand for home reconstruction as a result of asset deflation.

Exchange rate fluctuations can affect business results when production costs are temporarily influenced by them or when the currency of a country in which we manufacture products appreciates in relation to the currency of a country to which we export the products.

2. Changes in Tax Systems and Legal Regulations
Laws and regulations surrounding the housing business include the newly introduced Personal Information Protection Act, in addition to the Building Standards Law, Construction Industry Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (laws concerning the procedures for waste disposal and site clean-up). These laws and regulations can substantially influence product content and construction methods. There is the possibility that the business results of the Sumitomo Forestry Group might be substantially affected in the event of the abolition, revision, and enactment of laws and regulations. Moreover, changes in mortgage tax breaks and consumption tax rates have a significant effect on fluctuations in orders for the Sumitomo Forestry Group.

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	2005
Current assets:			
Cash and time deposits (Note 11)	¥ 25,188	¥ 30,169	\$ 235,406
Marketable securities (Note 5)	31,045	39,356	290,141
Receivables—			
Notes and accounts, trade	90,321	81,714	844,122
Loans and other	46,638	52,128	435,867
Inventories—			
Finished goods, logs and lumber	19,757	16,841	184,647
Developed land and housing for sale	10,775	5,995	100,700
Land and housing projects in progress	14,171	16,215	132,438
Deferred income taxes (Note 8)	8,513	8,323	79,565
Other current assets	2,349	2,415	21,955
Allowance for doubtful accounts	(692)	(829)	(6,469)
Total current assets	248,066	252,328	2,318,372
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	17,542	16,965	163,945
Buildings and structures	29,735	28,839	277,900
Machinery and equipment	51,208	49,847	478,575
Timber (Note 6)	11,094	11,083	103,682
Construction in progress	2,206	1,944	20,621
	111,785	108,677	1,044,723
Less accumulated depreciation	(46,679)	(45,542)	(436,256)
Net property, plant and equipment	65,106	63,135	608,467
Intangible assets, net of amortization:			
Consolidation goodwill	1,434	1,883	13,399
Other intangible assets	5,454	5,533	50,970
Total intangible assets	6,887	7,416	64,369
Investments and other assets:			
Investment securities (Note 5)	40,485	36,412	378,365
Long-term loans and receivables	1,881	2,347	17,576
Deferred income taxes (Note 8)	1,193	1,230	11,146
Other assets	8,627	8,605	80,629
Allowance for doubtful accounts	(1,561)	(1,718)	(14,586)
Total investments and other assets	50,625	46,875	473,130
	¥ 370,684	¥ 369,755	\$ 3,464,338

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	2005
Current liabilities:			
Payables—			
Notes and accounts, trade	¥ 110,653	¥ 108,987	\$ 1,034,140
Other	5,289	6,233	49,428
Short-term debt (Note 7)	6,395	8,621	59,765
Current portion of long-term debt (Note 7)	956	1,007	8,933
Advances received from customers	35,285	37,739	329,763
Accrued income taxes	4,197	7,056	39,228
Accrued employees' bonuses	7,518	7,072	70,262
Other current liabilities	10,194	9,235	95,275
Total current liabilities	180,487	185,951	1,686,794
Long-term liabilities:			
Long-term debt (Note 7)	8,229	10,300	76,909
Deferred income taxes (Note 8)	2,259	2,041	21,117
Accrued employees' retirement benefits (Note 16)	13,915	11,417	130,048
Other	12,772	13,391	119,365
Total long-term liabilities	37,176	37,149	347,439
Minority interests in consolidated subsidiaries	521	385	4,871
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	258,617
Capital surplus	25,654	25,651	239,752
Retained earnings	90,807	85,148	848,668
Unrealized gain on available-for-sale securities	9,243	8,972	86,381
Foreign currency translation adjustments	(380)	(811)	(3,553)
Treasury stock (653,288 shares in 2005 and 530,083 shares in 2004)	(496)	(363)	(4,631)
Total shareholders' equity	152,500	146,269	1,425,234
	¥ 370,684	¥ 369,755	\$ 3,464,338

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	2005
Sales:			
Net sales	¥ 356,686	¥ 314,562	\$ 3,333,515
Contract revenues	366,507	359,217	3,425,302
Total	723,193	673,779	6,758,817
Cost of sales:			
Cost of sales	329,631	292,558	3,080,668
Cost of contracts completed	267,980	260,443	2,504,483
Total	597,611	553,001	5,585,151
Gross profit	125,582	120,778	1,173,666
Selling, general and administrative expenses (Note 10)	107,116	103,201	1,001,087
Operating income	18,466	17,577	172,579
Other income (expenses):			
Interest and dividends income	437	372	4,080
Interest expense	(752)	(590)	(7,027)
Loss on devaluation of investment securities	(5)	(14)	(42)
Loss on devaluation of real estate for sale and other assets	(47)	(589)	(435)
Impairment loss	(36)	(5,532)	(332)
Moving expense of the head office	(509)	—	(4,760)
Loss on business restructuring	(3,284)	—	(30,691)
Amortization of prior service costs	—	9,441	—
Amortization of unrecognized actuarial gains	—	4,280	—
Other gains, net (Note 9)	1,396	119	13,043
Total	(2,800)	7,486	(26,164)
Income before income taxes and minority interests	15,666	25,063	146,415
Income taxes (Note 8):			
Current	7,688	9,373	71,854
Deferred	(161)	5,788	(1,502)
Total	7,528	15,161	70,352
Minority interests	124	32	1,163
Net Income	¥ 8,014	¥ 9,870	\$ 74,900
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net Income (Note 18)	¥ 45.28	¥ 55.81	\$ 0.42
Cash dividends	13.00	13.00	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, 2005 and 2004

	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, 2003	176,603,881	¥ 27,672	¥ 25,651	¥ 77,304	¥ 1,647	¥ (2,256)	¥ (290)
Net income	—	—	—	9,870	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	7,325	—	—
Changes in foreign currency translation	—	—	—	—	—	1,445	—
Cash dividends (¥11.50 per share) ...	—	—	—	(2,026)	—	—	—
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	¥ 25,651	¥ 85,148	¥ 8,972	¥ (811)	¥ (363)
Net income	—	—	—	8,014	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	271	—	—
Changes in foreign currency translation	—	—	—	—	—	431	—
Cash dividends (¥13.00 per share) ...	—	—	—	(2,289)	—	—	—
Bonuses to directors	—	—	—	(66)	—	—	—
Gain on sale of treasury stock	—	—	3	—	—	—	—
Treasury stock acquired, net (123,205 shares)	—	—	—	—	—	—	(133)
Balance as at March 31, 2005	176,603,881	¥ 27,672	¥ 25,654	¥ 90,807	¥ 9,243	¥ (380)	¥ (496)
	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, 2004		\$ 258,617	\$ 239,726	\$ 795,776	\$ 83,849	\$ (7,580)	\$ (3,389)
Net income		—	—	74,900	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes		—	—	—	2,532	—	—
Changes in foreign currency translation		—	—	—	—	4,027	—
Cash dividends (\$0.12 per share)		—	—	(21,389)	—	—	—
Bonuses to directors		—	—	(619)	—	—	—
Gain on sale of treasury stock		—	26	—	—	—	—
Treasury stock acquired, net (123,205 shares)		—	—	—	—	—	(1,242)
Balance as at March 31, 2005		\$ 258,617	\$ 239,752	\$ 848,668	\$ 86,381	\$ (3,553)	\$ (4,631)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2004	2005
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 15,666	¥ 25,063	\$ 146,415
Adjustments—			
Depreciation and amortization	6,452	6,447	60,304
Impairment loss	36	5,532	332
Write-down of consolidation goodwill	450	364	4,201
Provision for (reversal of) doubtful account	(294)	(368)	(2,750)
Provision for (reversal of) severance indemnities, less payments	2,500	(12,797)	23,365
Interest and dividends income	(437)	(372)	(4,080)
Interest expense	752	590	7,027
Equity in earnings of affiliates	(329)	(163)	(3,079)
Losses on devaluation of marketable securities and investment securities	5	14	42
Losses (gains) on sales of marketable securities and investment securities, net	(770)	(110)	(7,197)
Losses (gains) on disposal of fixed assets, net	350	(25)	3,273
Gains on liquidation of subsidiaries	—	(56)	—
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(3,906)	9,667	(36,501)
Inventories	(5,562)	(1,013)	(51,985)
Other current assets	3,198	4,220	29,889
Notes and accounts payable, trade	688	(8,064)	6,430
Advances received from customers	(2,515)	3,771	(23,500)
Other current liabilities	1,537	1,519	14,364
Other	168	(233)	1,570
Total	17,989	33,984	168,120
Interest and dividends income received	477	371	4,459
Interest paid	(746)	(589)	(6,968)
Income taxes paid, net	(11,036)	(7,804)	(103,137)
Net cash provided by operating activities	6,685	25,962	62,474
Cash flows from investment activities:			
Payments for purchases of marketable securities	—	(2,899)	—
Proceeds from sales of marketable securities	158	2,947	1,476
Payments for purchases of fixed assets	(10,217)	(6,291)	(95,489)
Proceeds from sales of fixed assets	3,905	3,627	36,491
Payments for purchases of intangible assets	(1,746)	(1,525)	(16,316)
Payments for purchases of investment securities	(4,254)	(8,083)	(39,757)
Proceeds from sales of investment securities	1,437	2,512	13,428
Proceeds from liquidation of subsidiaries	—	272	—
Payments for long-term loans receivable	(81)	(79)	(753)
Repayments of long-term loans receivable	256	2,278	2,389
Decrease (increase) in short-term loans receivable	(1,702)	(1,164)	(15,904)
Net proceeds from purchase of stock in subsidiary newly consolidated	—	221	—
Other	(651)	537	(6,081)
Net cash provided by (used in) investment activities	(12,895)	(7,646)	(120,516)
Cash flows from financing activities:			
Proceeds from long-term debt	165	2,392	1,546
Repayments of long-term debt	(2,721)	(3,077)	(25,434)
Increase (decrease) in short-term borrowings	(2,095)	2,053	(19,578)
Dividends paid	(2,289)	(2,030)	(21,390)
Other	(147)	(73)	(1,375)
Net cash used in financing activities	(7,087)	(735)	(66,231)
Effect of exchange rate changes on cash and cash equivalents	(87)	(298)	(811)
Net increase (decrease) in cash and cash equivalents	(13,384)	17,283	(125,084)
Cash and cash equivalents at the beginning of the year	69,312	52,029	647,776
Cash and cash equivalents at the end of the year (Note 11)	¥ 55,928	¥ 69,312	\$ 522,692

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

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, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle related businesses, including the 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 are rounded in this annual report. (Until previous annual report, amounts of less than one million yen had been omitted.)

3. Summary of Significant Accounting Policies

(1) Accounting Changes

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 5,532 million yen in fiscal 2004. 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 material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period. Immaterial difference are expensed when incurred.

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 construction 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) Reserve for restructuring costs

The allowance for restructuring costs is stated at the estimated loss on restructuring of discontinued operation at the end of the fiscal year.

The balance of this reserve at March 31, 2005, which was included in other current liabilities on the accompanying consolidated balance sheets, was ¥1,867 million (US \$17,446 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) 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 ii) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

Sales of precut timber, building materials and certain housing equipment, such as system kitchens, system furniture, bathtubs, sinks and other, which are purchased by the Company and sold to building contractors for use in house building projects specifically subcontracted from the Company, are recognized upon completion and acceptance of the completed houses by the customers, with the related cost being included in cost of contracts completed.

Contract revenues, representing revenues from custombuilt houses, are recorded when the completed houses are accepted by customers.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2004 have been reclassified to conform to presentation in 2005.

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 ¥107=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2005. 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, 2005 and 2004 were as follows;

Millions of yen				
2005				
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . .	¥ 21,385	¥ 15,751	¥ (249)	¥ 36,886
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	¥ 31,334	¥ —	¥ —	¥ 31,334

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	¥ 39,603	¥ —	¥ —	¥ 39,603

Thousands of U.S. dollars				
2005				
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . .	\$ 199,857	\$ 147,204	\$ (2,332)	\$ 344,729
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	\$ 292,839	\$ —	\$ —	\$ 292,839

Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the year ended March 31, 2005 and 2004 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2005	2004	2005
Proceeds		¥ 1,437	¥ 2,490	\$ 13,428
Gross gains		806	110	7,537
Gross losses		36	0	340

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005			
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due within one year . . .	¥ —	¥ 31,045	\$ —	\$ 290,141
Due after one year through five years	—	289	—	2,698
	¥ —	¥ 31,334	\$ —	\$ 292,839

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, 2005 and 2004 comprised the following:

		Millions of yen		Thousands of U.S. dollars
		2005	2004	2005
Standing timber:				
Mature timber		¥ 10,572	¥ 10,472	\$ 98,804
Growing timber		522	611	4,878
		11,094	11,083	103,682
Land		478	478	4,465
		¥ 11,572	¥ 11,561	\$ 108,147

The timberland accounts at March 31, 2005 and 2004 were reduced by ¥268 million (US\$2,508 thousand) and ¥268 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2005 and 2004 generally represented short-term borrowings which bore interest of 3.30% and 1.74% per annum, respectively. Long-term debt at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans, principally from banks and insurance companies, due 2006 to 2009 with interest of 6.73%:			
Secured	¥ 6,600	¥ 7,791	\$ 61,686
Unsecured	2,305	3,177	21,539
Debenture bonds:			
0.35 basis points	180	240	1,682
0.64 basis points	100	100	935
	9,185	11,308	85,842
Portion due within one year	956	1,007	8,933
	¥ 8,229	¥ 10,300	\$ 76,909

The following assets were pledged to secure bank loans and long-term debt at March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Receivables-			
Notes and accounts, trade	¥ 518	¥ 205	\$ 4,840
Finished goods, logs and lumber	1,022	524	9,548
Land	1,454	2,694	13,587
Buildings and structures	3,683	4,176	34,423
Machinery and equipment	9,315	9,416	87,060
Timberland	2,199	2,118	20,547
	¥ 18,191	¥ 19,133	\$ 170,005

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

YEARS ENDING MARCH 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 956	\$ 8,933
2007	1,132	10,575
2008	5,429	50,737
2009	1,660	15,513
2010	9	84
Thereafter	—	—
	¥ 9,185	\$ 85,842

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 2005 was 40.0%. 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 was changed from 42.0% to 40.0%.

The chart below shows the differences in the statutory tax rate and effective income tax rate.

	2005	2004
Statutory tax rate	40.0 %	42.0 %
Non-deductible expense for purposes	1.2	0.8
Per capita portion of Inhabitant Tax	1.7	0.9
Amortization of consolidation differences	1.1	0.6
Effect of tax rate changes	—	1.2
Valuation allowance	6.5	17.2
Special deduction on corporate income taxes	(1.7)	—
Other	(0.7)	(2.3)
Effective income tax rate	48.1 %	60.5 %

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,006	¥ 3,033	\$ 28,096
Provision for guarantee			
for after-cost of construction ...	406	313	3,797
Advances received	413	437	3,863
Accrued enterprise taxes	325	577	3,036
Devaluation of real estate			
for sale and other assets	4,428	4,914	41,380
Devaluation of property,			
plant and equipment	550	550	5,144
Impairment loss	2,082	2,213	19,461
Pension and severance costs	6,401	6,400	59,824
Unrealized intercompany profit	471	357	4,403
Tax loss carryforward	2,045	2,525	19,112
Loss on business restructuring	747	—	6,978
Other	2,404	2,642	22,471
Gross deferred tax assets	23,279	23,962	217,565
Valuation allowance	(6,552)	(7,154)	(61,230)
Total deferred tax assets	16,728	16,808	156,335
Deferred tax liabilities:			
Deferred gains on sales of property ..	(1,091)	(1,091)	(10,196)
Unrealized gain on			
available-for-sale securities	(6,197)	(5,990)	(57,918)
Gain on securities contributed to			
employee retirement			
benefit trust	(1,590)	(1,627)	(14,863)
Other	(403)	(588)	(3,764)
Gross deferred tax liabilities .	(9,281)	(9,296)	(86,741)
Net deferred tax assets	¥ 7,447	¥ 7,512	\$ 69,594

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2005 and 2004 as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets-			
Deferred income taxes	¥ 8,513	¥ 8,323	\$ 79,565
Investment and other assets-			
Deferred income taxes	1,193	1,230	11,146
Current liabilities-			
Other	—	—	—
Long-term liabilities-			
Deferred income taxes	(2,259)	(2,041)	(21,117)
Net deferred tax assets	¥ 7,447	¥ 7,512	\$ 69,594

9. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Gain on sales of property,			
plant and equipment	¥ 37	¥ 34	\$ 349
Gain on sales of investment securities ..	806	110	7,537
Loss on sales of investment securities ..	(36)	—	(340)
Other, net	588	(25)	5,497
	¥ 1,396	¥ 119	\$ 13,043

10. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2005 and 2004 were ¥883 million (US\$8,251 thousand) and ¥926 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥ 25,188	¥ 30,169	\$ 235,406
Short-term investments	30,798	39,198	287,833
Less: Cash deposits and			
short-term investments			
which mature or become			
due over three months after			
the date of acquisition	(59)	(56)	(547)
Cash and cash equivalents	¥ 55,928	¥ 69,312	\$ 522,692

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 Companies 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, 2005 and 2004, which were included in retained earnings on the accompanying consolidated balance sheets, were ¥2,857 million (US\$26,702 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, 2005 and 2004 were ¥4,798 million (US\$44,844 thousand) and ¥5,167 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
	2005	2004	2005
Buildings and structures	¥ 10,081	¥ 12,574	\$ 94,218
Machinery and equipment	5,885	8,689	55,001
Other	101	191	946
Accumulated depreciation	(8,118)	(12,467)	(75,868)
Accumulated Impairment loss	(12)	(379)	(110)
	¥ 7,938	¥ 8,606	\$ 74,187

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation	¥ 4,604	¥ 4,955	\$ 43,023
Interest expenses	164	185	1,536
Impairment loss	—	(379)	—

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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current obligation	¥ 3,409	¥ 4,052	\$ 31,859
Long-term obligation	4,637	5,069	43,339
Present value of lease payments . . .	¥ 8,046	¥ 9,121	\$ 75,198
Impairment loss on leased assets . . .	¥ 7	¥ 379	\$ 63

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2005 and 2004 were ¥149 million (US\$1,392 thousand) and ¥195 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, 2005 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Machinery and equipment	¥ 497	¥ 931	\$ 4,646
Other	11	4	102
Accumulated depreciation	(265)	(670)	(2,477)
	¥ 243	¥ 265	\$ 2,271

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation	¥ 128	¥ 172	\$ 1,200
Interest income	18	22	165

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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current obligation	¥ 86	¥ 116	\$ 805
Long-term obligation	156	151	1,461
Present value of lease receipts	¥ 242	¥ 267	\$ 2,266

14. Contingent Liabilities

Contingent liabilities as at March 31, 2005 and 2004, for loans guaranteed amounted to ¥11,490 million (US\$107,383 thousand) and ¥7,228 million, and for notes discounted and endorsed in the ordinary course of business amounted to NIL and ¥47 million, respectively.

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

The Company 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 circumstance 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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ (38,546)	¥ (33,394)	\$ (360,243)
Fair value of plan assets	24,631	21,978	230,195
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits . .	¥ (13,915)	¥ (11,417)	\$ (130,048)

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 2,949	¥ 3,288	\$ 27,557
Interest cost	777	1,052	7,264
Expected return on plan assets	(150)	(128)	(1,402)
Recognized actuarial gain (loss)	(209)	(4,280)	(1,949)
Amortization			
of prior service cost	—	(9,441)	—
Net periodic benefit costs	¥ 3,367	¥ (9,508)	\$ 31,470

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

Assumptions used for the year ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.0 %	2.1 %
Expected rate of return on plan assets	0.7 %	0.7 %
Recognition period of actuarial gain/loss	1 year	1 year
Amortization of prior service cost	1 year	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, sale of interiors and brokerage of real estate

Other: leasing, golf course management and other

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

YEAR ENDED MARCH 31, 2005	Millions of yen					Consolidated
	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	
Sales and contract revenues:						
Unaffiliated customers	¥ 301,696	¥ 418,031	¥ 3,466	¥ 723,193	¥ —	¥ 723,193
Intersegment transfers	18,559	281	9,719	28,560	(28,560)	—
Total	320,255	418,313	13,185	751,753	(28,560)	723,193
Operating expenses	315,640	400,783	12,447	728,869	(24,142)	704,727
Operating income	¥ 4,615	¥ 17,530	¥ 738	¥ 22,884	¥ (4,418)	¥ 18,466
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 157,840	¥ 108,705	¥ 8,650	¥ 275,196	¥ 95,488	¥ 370,684
Depreciation and amortization	3,113	2,270	601	5,985	468	6,452
Impairment loss	—	—	—	—	36	36
Capital investment	2,949	4,403	754	8,107	1,131	9,237

YEAR ENDED MARCH 31, 2004	Millions of yen					Consolidated
	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	
Sales and contract revenues:						
Unaffiliated customers	¥ 277,034	¥ 393,507	¥ 3,238	¥ 673,779	¥ —	¥ 673,779
Intersegment transfers	16,187	109	9,112	25,408	(25,408)	—
Total	293,220	393,616	12,350	699,187	(25,408)	673,779
Operating expenses	289,407	376,467	11,706	677,580	(21,378)	656,202
Operating income	¥ 3,813	¥ 17,150	¥ 644	¥ 21,607	¥ (4,030)	¥ 17,577
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥ 146,169	¥ 108,160	¥ 7,893	¥ 262,223	¥ 107,532	¥ 369,755
Depreciation and amortization	2,959	2,225	627	5,811	635	6,447
Impairment loss	—	2,414	3,117	5,532	—	5,532
Capital investment	1,723	3,162	999	5,884	507	6,392

YEAR ENDED MARCH 31, 2005	Thousands of U.S. dollars					Consolidated
	Timber and building materials	Housing	Other	Total	Elimination and / or corporate	
Sales and contract revenues:						
Unaffiliated customers	\$ 2,819,592	\$ 3,906,836	\$ 32,389	\$ 6,758,817	\$ —	\$ 6,758,817
Intersegment transfers	173,450	2,630	90,832	266,912	(266,912)	—
Total	2,993,042	3,909,466	123,221	7,025,729	(266,912)	6,758,817
Operating expenses	2,949,909	3,745,632	116,322	6,811,863	(225,625)	6,586,238
Operating income	\$ 43,133	\$ 163,834	\$ 6,899	\$ 213,866	\$ (41,287)	\$ 172,579
Identifiable assets, depreciation and capital investment:						
Identifiable assets	\$ 1,475,145	\$ 1,015,936	\$ 80,843	\$ 2,571,924	\$ 892,414	\$ 3,464,338
Depreciation and amortization	29,098	21,218	5,615	55,931	4,373	60,304
Impairment loss	—	—	—	—	332	332
Capital investment	27,564	41,153	7,046	75,763	10,567	86,330

Notes: (Year ended March 31, 2004)

As stated in Note 3 (1), 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 fiscal 2004. The effect of this change on the segment information was to decrease assets of housing and other segment by ¥2,414 million and ¥3,117 million in fiscal 2004, respectively.

Change in the business segment information

In the year ended March 31, 2004, the Companies 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 ¥6,061 million and sales in other segment was decreased by ¥5,859 million, operating expenses increased ¥5,694 million in housing segment and decreased ¥5,584 million in other segment and operating profit increased ¥367 million in housing segment and decreased ¥275 million in other segment.

b) Geographical segment information—

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

YEAR ENDED MARCH 31, 2005	Millions of yen			Elimination and / or corporate	Consolidated
	Domestic	Other	Total		
Sales and contract revenues:					
Unaffiliated customers	¥ 705,184	¥ 18,009	¥ 723,193	¥ —	¥ 723,193
Intersegment transfers	1,775	16,341	18,116	(18,116)	—
Total	706,959	34,350	741,309	(18,116)	723,193
Operating expenses	685,231	33,196	718,427	(13,699)	704,727
Operating income	¥ 21,727	¥ 1,155	¥ 22,882	¥ (4,416)	¥ 18,466
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 246,885	¥ 32,518	¥ 279,403	¥ 91,281	¥ 370,684

YEAR ENDED MARCH 31, 2004	Millions of yen				
	Domestic	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	¥ 659,703	¥ 14,076	¥ 673,779	¥ —	¥ 673,779
Intersegment transfers	1,690	16,455	18,145	(18,145)	—
Total	661,392	30,531	691,924	(18,145)	673,779
Operating expenses	639,900	30,514	670,414	(14,211)	656,202
Operating income	¥ 21,493	¥ 17	¥ 21,510	¥ (3,933)	¥ 17,577
Identifiable assets, depreciation and capital investment:					
Identifiable assets	¥ 231,051	¥ 29,523	¥ 260,574	¥ 109,181	¥ 369,755

YEAR ENDED MARCH 31, 2005	Thousands of U.S. dollars				
	Domestic	Other	Total	Elimination and / or corporate	Consolidated
Sales and contract revenues:					
Unaffiliated customers	\$ 6,590,506	\$ 168,311	\$ 6,758,817	\$ —	\$ 6,758,817
Intersegment transfers	16,586	152,721	169,307	(169,307)	—
Total	6,607,092	321,032	6,928,124	(169,307)	6,758,817
Operating expenses	6,404,031	310,239	6,714,270	(128,032)	6,586,238
Operating income	\$ 203,061	\$ 10,793	\$ 213,854	\$ (41,275)	\$ 172,579
Identifiable assets, depreciation and capital investment:					
Identifiable assets	\$ 2,307,336	\$ 303,907	\$ 2,611,243	\$ 853,095	\$ 3,464,338

c) Overseas sales information—

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

18. Net Income Per Share

The computation of net income per share for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Numerator for net income per share:			
Net income	¥ 8,014	¥ 9,870	\$ 74,900
Income not available to common stockholders	(44)	(40)	(408)
Income available to common stockholders	7,971	9,830	74,492
Denominator for net income per share:			
Weighted average number of shares issued	176,015,931	176,123,714	

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. (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, 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 the Company and consolidated subsidiaries at March 31, 2005 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) to the consolidated financial statements, the Company 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, 2005 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.

Ernst & Young ShinNihon

June 29, 2005

Stock Information

Stock Exchange Listings: Tokyo, Osaka

Common Stock

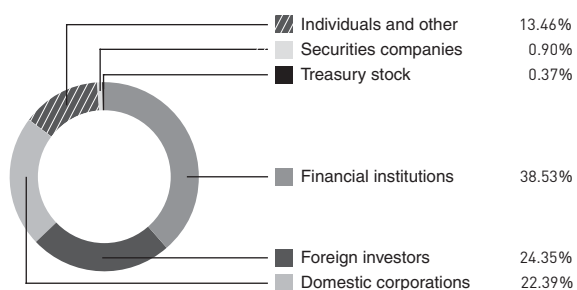
Authorized: 400,000,000 shares
Issued: 176,603,881 shares

Number of Shareholders: 11,555

General Meeting of Shareholders:

June

Breakdown of Shareholders:



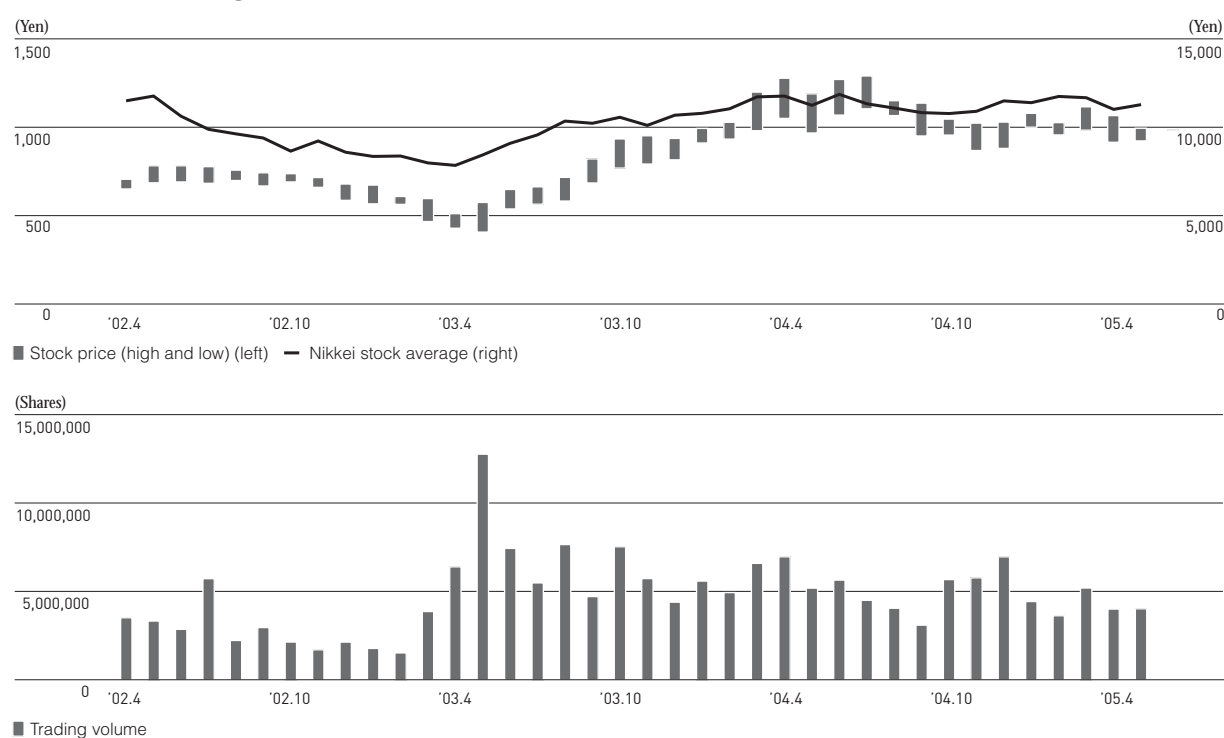
(As of March 31, 2005)

Major Shareholders:

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	15,875	8.99
Sumitomo Metal Mining Co., Ltd.	10,110	5.72
The Iyo Bank, Ltd.	5,850	3.31
Japan Trustee Service Bank, Ltd. (trust account)	5,220	2.96
Sumitomo Corporation	4,383	2.48
Sumitomo Life Insurance Company	4,227	2.39
The Hyakujushi Bank, Ltd.	4,198	2.38
Sumitomo Mitsui Banking Corporation	4,136	2.34
Nomura Trust and Banking Co., Ltd. (trust account)	4,000	2.26
State Street Bank and Trust Company	3,789	2.15

(As of March 31, 2005)

Stock Price and Trading Volume: (Osaka Securities Exchange)



Corporate Data

Company Name: Sumitomo Forestry Co., Ltd.

Founded: 1691

Incorporated: 1948

Paid-in Capital: ¥27,672 million

Head Office: Marunouchi Trust Tower North
8-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8270, Japan
Tel: 81-3-6730-3500
Fax: 81-3-6730-3504

Consolidated Subsidiaries: 40 (Overseas 10)

Associated Companies: 6 (Overseas 5)

Number of Employees (Consolidated): 10,477

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

Independent Auditors: SHIN NIHON & CO.

Transfer Agent and Registrar: The Sumitomo Trust and Banking Co., Ltd.
Stock Transfer Agency Department
4-4, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan

(As of March 31, 2005)

For further information, please contact:

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Corporate Planning Division
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