FINANCIAL SECTION

MARKET OVERVIEW

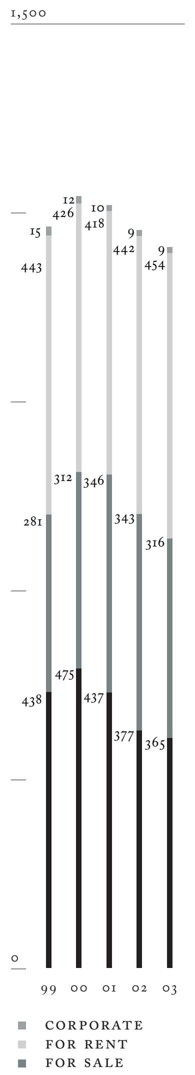
The Japanese economy remained in difficult straits during the fiscal year ended March 31, 2003, with private-sector capital investment declining, consumer spending stagnating, and unemployment reaching record-high levels.

In such an uninspiring economic environment, the housing industry faced dim prospects for a recovery in housing starts, as future employment and income security remained consumers' overriding concerns. Indeed, the number of new housing starts during the fiscal year declined 2.4% year-on-year to 1,145,553 units. Moreover, the number of housing starts of owner-occupied homes, the source of the Sumitomo Forestry Group's core single-unit home business, decreased 3.1% to 365,507 units. Despite lower demand in the Timber and Building Materials segment, product prices remained strong in the first half of the fiscal year owing to a decline in the supply of imported products. In the second half of the fiscal year, however, the supply of imported products rebounded and prices softened. This situation was exacerbated by weakening demand accompanying a deceleration in condominium starts.

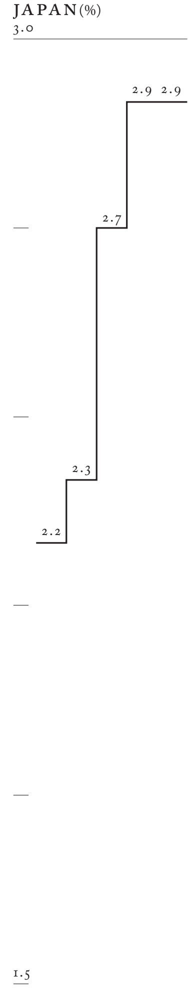
In this tough operating environment, the Sumitomo Forestry Group made every effort to restore profitability in line with the Company's management restructuring plan formulated at the end of the previous fiscal year. As a result, net sales and contract revenues edged up 0.1% to ¥645.1 billion (US$5,375.8 million) and operating income nearly tripled to ¥8.8 billion (US$73.1 million). This result represents the Company's first step toward achieving a full recovery in profits.

In the fiscal year currently under way, however, we look for the operating environment to worsen owing to the negative effects of delays in structural changes to the economy. Consequently, we expect new housing starts to record yet another consecutive year-on-year decline, to 1,120,000 units, and housing starts of owner-occupied homes to be mostly flat at approximately 360,000 units.

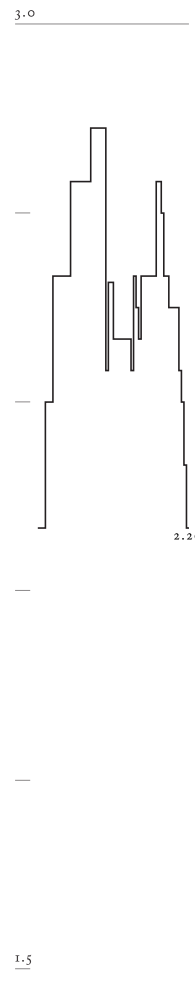
NUMBER OF NEW HOUSING STARTS IN JAPAN
(Thousands of units)



COMPANY'S SHARE OF OWNER-OCCUPIED HOUSING STARTS IN JAPAN (%)



HOUSING LOAN CORPORATION STANDARD INTEREST RATE
(%)



SCOPE OF CONSOLIDATION

Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries are primarily engaged in timber and building materials distribution, residential construction and related upstream and downstream businesses. For fiscal 2003, ended March 31, 2003, the consolidated financial statements include the results of 50 consolidated subsidiaries (a decrease of two companies from the previous fiscal year) and three companies accounted for by the equity method (unchanged from the previous fiscal year).

OVERVIEW

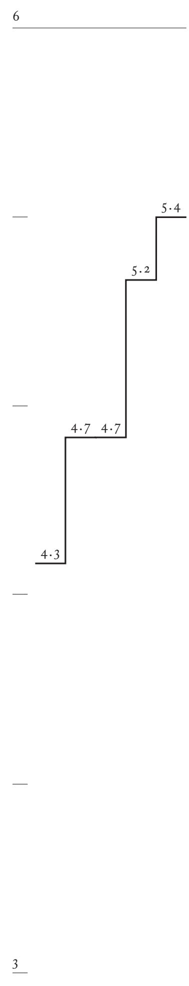
Total consolidated sales in fiscal 2003 increased 0.1% to ¥645.1 billion (US$5,375.8 million). Operating income surged to ¥8.8 billion (US$73.1 million) mainly due to successful efforts to reduce production costs and curtails selling, general and administrative (SG&A) expenses which decreased ¥5.5 billion, or 5.2%, to ¥100.9 billion (US$840.5 million). In the fiscal year under review, Sumitomo Forestry recorded an extraordinary gain on partial refund in lieu of welfare pension of ¥7.2 billion (US$60.0 million). This however was more than offset by extraordinary losses totaling ¥31.6 billion (US$263.4 million). In an effort to strengthen its Group financial position, Sumitomo Forestry posted a lump-sum amortization of actuarial difference relating to the adoption of retirement benefit accounting, loss on devaluation of real estate for sale and idle real estate, and a loss on devaluation of investment securities. Regrettably, the Company posted a net loss of ¥15.4 billion (US$128.7 million) for the period.

SALES AND OTHER INCOME

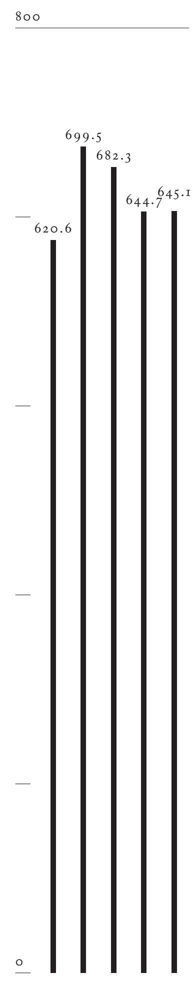
Total consolidated sales (net sales plus contract revenues) edged up 0.1% to ¥645.1 billion (US$5,375.8 million).

By segment, sales and contract revenues in the Timber and Building Materials segment rose 5.1% to ¥266.1 billion (US$2,217.3 million).

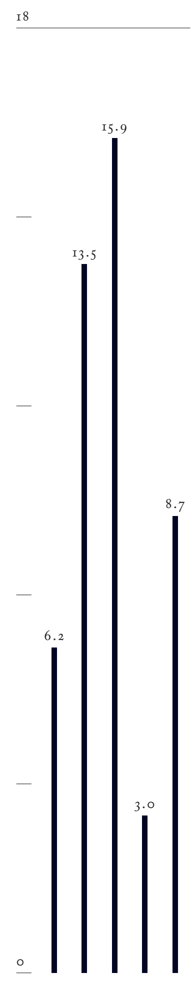
UNEMPLOYMENT RATE
(%)



NET SALES AND CONTRACT REVENUES
(Billions of yen)



OPERATING PROFIT
(Billions of yen)



In the Housing segment, sales and contract revenues fell 3.1% to ¥369.9 billion (US$3,082.4 million). Orders for new detached homes dipped 1.3% from the previous year's figure to 10,538 units, and the number of housing completions fell 4.1% year-on-year to 10,552 units. A bright spot in this segment was the collective housing business, which handles all construction unrelated to detached homes, where new construction orders increased 14.1% over the previous year's figure to 1,227 units due to our lineup of distinctive products.

Sales and contract revenues in the Other segment fell 8.5% to ¥9.1 billion (US$76.1 million).

NET INCOME

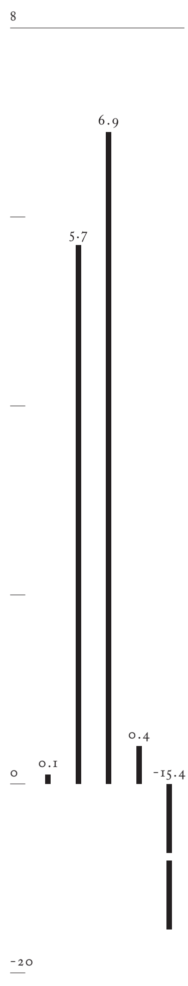
Despite difficult operating conditions, the Company was successful in maintaining net sales and contract revenues on par with the previous fiscal year. Operating income surged 188.6% to ¥8.8 billion (US$73.1 million), reflecting efforts to reduce production costs and curtail SG&A expenses. The operating margin improved 0.9 of a percentage point to 1.4%.

By business segment, operating profit rose 18.9% in the Timber and Building Materials segment to ¥2.2 billion (US$18.7 million), nearly doubled in the Housing segment to ¥9.9 billion (US$82.7 million), and fell 28.3% in the Other segment to ¥0.4 billion (US$3.5 million). The operating margin was 0.8% in Timber and Building Materials, 2.7% in Housing, and 4.5% in Other.

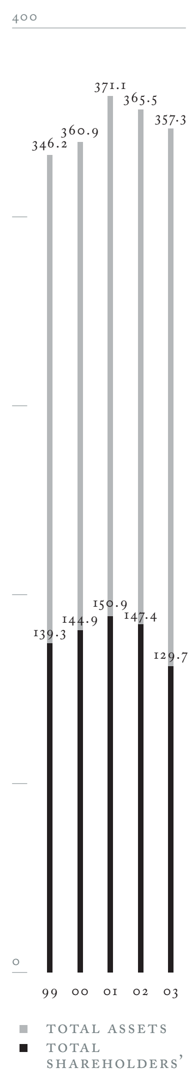
Interest expense was mostly unchanged from the previous fiscal year at ¥316 million (US$2.6 million), while interest and dividends income declined 18.0% to ¥351 million (US$2.9 million). The Company recorded extraordinary losses of ¥38.8 billion (US$323.1 million) with the aim of strengthening its financial position.

The loss before income taxes and minority interests was ¥21.9 billion (US$182.5 million), compared with income of ¥2.7 billion in the previous fiscal year. The net loss amounted to ¥15.4 billion (US$128.7 million), compared with net income of ¥0.5 billion in fiscal 2002. The net loss per share of common stock was ¥87.53 (US$0.72), compared with net income per share of ¥2.64 in the previous fiscal year.

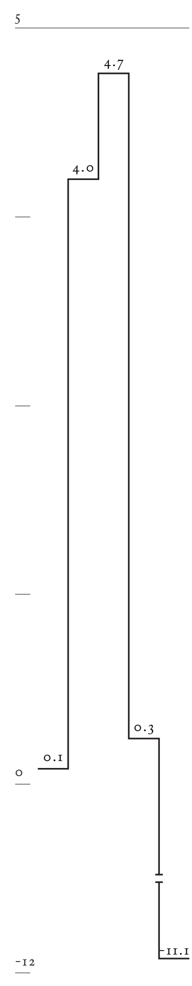
NET INCOME
(Billions of yen)



TOTAL ASSETS/ TOTAL SHAREHOLDERS' EQUITY
(Billions of yen)



ROE
(%)



CASH FLOWS

Net cash provided by operating activities increased 13.9% to ¥19.7 billion (US$164.5 million), owing mainly to lower notes and accounts receivable, trade and a decrease in income taxes paid, net, compared with the previous fiscal year.

Net cash provided by investment activities amounted to ¥2.0 billion (US$16.9 million), compared with cash used in investment activities of ¥16.4 billion in fiscal 2002. The inflow of cash was a result largely of higher proceeds from sales of marketable securities.

Net cash used in financing activities declined 15.9% to ¥8.2 billion (US$68.1 million). The largest cash expenditure in this category was ¥4.9 billion (US$40.6 million) in repayments of long-term debt.

Cash and cash equivalents at the end of the year totaled ¥52.0 billion (US$433.6 million), up 33.8% over the previous year's result.

FINANCIAL POSITION

Total current assets fell 2.4% to ¥245.0 billion (US$2,042.1 million), mainly owing to a drop in cash and time deposits and a lower level of notes and accounts receivable. Net property, plant and equipment also fell significantly, to ¥63.9 billion from ¥72.7 billion as of the previous fiscal year-end. As a result, total assets stood at ¥357.3 billion (US$2,977.7 million).

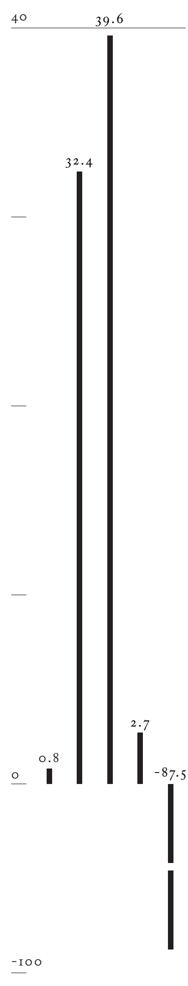
Total current liabilities fell 3.0% to ¥184.8 billion (US$1,539.9 million), while total long-term liabilities rose 55.1% to ¥42.8 billion (US$356.3 million). Accordingly, total liabilities rose 4.4% to ¥227.5 billion (US$1,896.2 million).

Working capital (current assets minus current liabilities) slipped 0.4% to ¥60.3 billion (US$502.2 million). The current ratio (current assets divided by current liabilities) edged up 0.9 of a percentage point to 132.6%.

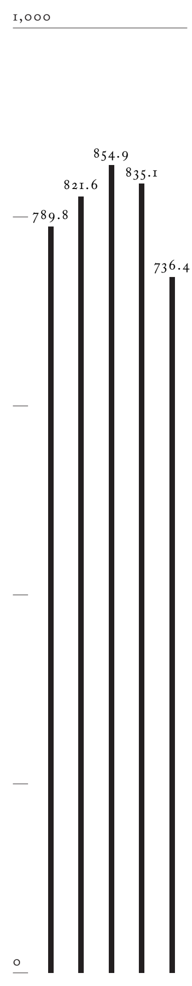
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt, and long-term debt) fell 9.0% to ¥16.5 billion (US$137.5 million).

Total shareholder's equity decreased 12.0% to ¥129.7 billion (US$1,081.1 million). The equity ratio fell 4.0 percentage points from 40.3% as of the previous fiscal year-end to 36.3%.

NET INCOME PER SHARE
(Yen)



SHAREHOLDERS' EQUITY PER SHARE
(Yen)



Consolidated Balance Sheets

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 2003 AND 2002

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 4)
ASSETS	2003	2002	2003
Current assets:			
Cash and time deposits (Note 11)	¥ 29,685	¥ 31,004	$ 247,375
Marketable securities (Note 5)	22,445	15,998	187,041
Receivables—			
Notes and accounts, trade	85,029	88,784	708,575
Loans and other	60,580	74,406	504,833
Inventories—			
Finished goods, logs and lumber	15,527	12,931	129,391
Developed land and housing for sale	7,155	5,877	59,625
Land and housing projects in progress	15,146	14,217	126,216
Deferred income taxes (Note 8)	7,376	3,689	61,466
Other current assets	2,711	4,495	22,591
Allowance for doubtful accounts	(608)	(445)	(5,066)
Total current assets	245,049	250,959	2,042,075
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	17,575	25,436	146,458
Buildings and structures	27,678	32,947	230,650
Machinery and equipment	44,502	35,972	370,850
Timber (Note 6)	11,117	10,953	92,641
Construction in progress	1,531	4,320	12,758
	102,405	109,630	853,375
Less accumulated depreciation	(38,458)	(36,915)	(320,483)
Net property, plant and equipment	63,946	72,714	532,883
Intangible assets, net of amortization:			
Consolidation goodwill	1,396	1,427	11,633
Other intangible assets	5,945	5,415	49,541
Total intangible assets	7,341	6,843	61,175
Investments and other assets:			
Investment securities (Note 5)	18,831	21,412	156,925
Long-term loans and receivables	4,650	4,165	38,750
Deferred income taxes (Note 8)	11,796	1,628	98,300
Other assets	7,967	8,716	66,391
Allowance for doubtful accounts	(2,260)	(908)	(18,833)
Total investments and other assets	40,984	35,013	341,533
	¥ 357,322	¥ 365,531	$ 2,977,683

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	MILLIONS OF YEN 2003	MILLIONS OF YEN 2002	THOUSANDS OF U.S. DOLLARS (NOTE 4) 2003
Current liabilities:			
Payables—			
Notes and accounts, trade	**¥ 116,820**	¥ 126,728	**$ 973,500**
Other	**6,356**	6,483	**52,966**
Short-term debt (Note 7)	**6,525**	7,848	**54,375**
Current portion of long-term debt (Note 7)	**2,426**	760	**20,216**
Advances received from customers	**34,195**	34,561	**284,958**
Accrued income taxes	**5,365**	627	**44,708**
Accrued employees' bonuses	**6,274**	6,931	**52,283**
Other current liabilities	**6,825**	6,541	**56,875**
Total current liabilities	**184,789**	190,482	**1,539,908**
Long-term liabilities:			
Long-term debt (Note 7)	**7,545**	9,515	**62,875**
Deferred income taxes (Note 8)	**1,024**	315	**8,533**
Accrued employees' retirement benefits (Note 16)	**24,157**	7,470	**201,308**
Other	**10,021**	10,253	**83,508**
Total long-term liabilities	**42,750**	27,555	**356,250**
Minority interests in consolidated subsidiaries	**55**	53	**458**
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	**230,600**
Capital surplus	**25,650**	25,650	**213,750**
Retained earnings	**77,303**	94,538	**644,191**
Unrealized gain on available-for-sale securities	**1,646**	2,369	**13,716**
Foreign currency translation adjustments	**(2,255)**	(2,760)	**(18,791)**
Treasury stock (442,841 shares in 2003 and 43,551 shares in 2002)	**(289)**	(30)	**(2,408)**
Total shareholders' equity	**129,727**	147,440	**1,081,058**
	¥ 357,322	¥ 365,531	**$ 2,977,683**

Consolidated Statements of Operations

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2002	2003
Sales:			
Net sales	¥295,115	¥289,750	$ 2,459,291
Contract revenues	349,984	354,979	2,916,533
Total	645,100	644,730	5,375,833
Cost of sales:			
Cost of sales	273,299	267,521	2,277,491
Cost of contracts completed	262,169	267,771	2,184,741
Total	535,468	535,293	4,462,233
Gross profit	109,631	109,437	913,591
Selling, general and administrative expenses (Note 10)	100,858	106,397	840,483
Operating income	8,772	3,040	73,100
Other income (expenses):			
Interest and dividends income	351	428	2,925
Interest expense	(316)	(312)	(2,633)
Loss on devaluation of investment securities	(2,580)	(633)	(21,500)
Loss on devaluation of real estate for sale and other assets	(7,786)	(375)	(64,883)
Profits from partial refund in lieu of welfare pension	7,045	—	58,708
Loss on devaluation of property, plant and equipment	(2,306)	—	(19,216)
One time disposal of unrecognized actuarial losses	(22,659)	—	(188,825)
Write-down of consolidation goodwill	(1,427)	—	(11,891)
Other, net (Note 9)	(988)	561	(8,233)
Total	(30,670)	(330)	(255,583)
Loss (income) before income taxes and minority interests	(21,897)	2,709	(182,475)
Income taxes (Note 8):			
Current	6,763	3,966	56,358
Deferred	(13,225)	(1,832)	(110,208)
Total	(6,461)	2,134	(53,841)
Minority interests	3	109	25
Net (loss) income	¥ (15,439)	¥ 465	$ (128,658)

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net (loss) income	¥(87.53)	¥ 2.64	$(0.72)
Cash dividends	10.00	10.00	0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

		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, 2001	176,603,881	¥ 27,672	¥ 25,650	¥ 96,861	¥4,083	¥ (3,287)	¥ (0)
Decrease due to change in consolidation of subsidiaries	—	—	—	(43)	—	—	—
Decrease due to change in affiliates using the equity method	—	—	—	(1)	—	—	—
Decrease due to merging of subsidiaries	—	—	—	(913)	—	—	—
Net income	—	—	—	465	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	(1,713)	—	—
Changes in foreign currency translation	—	—	—	—	—	526	—
Cash dividends (¥10.00 per share)	—	—	—	(1,766)	—	—	—
Bonuses to directors	—	—	—	(63)	—	—	—
Treasury stock acquired, net (42,415 shares)	—	—	—	—	—	—	(29)
Balance as at March 31, 2002	176,603,881	¥ 27,672	¥ 25,650	¥ 94,538	¥2,369	¥ (2,760)	¥(30)
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	(723)	—	—
Changes in foreign currency translation	—	—	—	—	—	505	—
Cash dividends (¥10.00 per share)	—	—	—	(1,765)	—	—	—
Bonuses to directors	—	—	—	(30)	—	—	—
Treasury stock acquired, net (399,290 shares)	—	—	—	—	—	—	(259)
Net loss	—	—	—	(15,439)	—	—	—
Balance as at March 31, 2003	**176,603,881**	**¥ 27,672**	**¥ 25,650**	**¥ 77,303**	**¥1,646**	**¥ (2,255)**	**¥(289)**

	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, 2002	$230,600	$213,750	$787,816	$19,741	$(23,000)	$ (250)
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	(6,025)	—	—
Changes in foreign currency translation	—	—	—	—	4,208	—
Cash dividends ($0.08 per share)	—	—	(14,708)	—	—	—
Bonuses to directors	—	—	(250)	—	—	—
Treasury stock acquired, net (399,290 shares)	—	—	—	—	—	(2,158)
Net loss	—	—	(128,658)	—	—	—
Balance as at March 31, 2003	**$230,600**	**$213,750**	**$644,191**	**$13,716**	**$(18,791)**	**$ (2,408)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2003	2002	2003
Cash flows from operating activities:			
(Loss) Income before income taxes	**¥(21,897)**	¥ 2,709	**$(182,475)**
Adjustments—			
Depreciation and amortization	**5,985**	5,289	**49,875**
Write-down of consolidation goodwill	**1,427**	—	**11,891**
Provision for (reversal of) doubtful account	**1,515**	267	**12,625**
Provision for (reversal of) severance indemnities, less payments	**16,687**	2,720	**139,058**
Interest and dividends income	**(351)**	(428)	**(2,925)**
Interest expense	**316**	312	**2,633**
Equity in earnings of affiliates	**(70)**	(14)	**(583)**
Losses on devaluation of marketable securities and investment securities	**2,580**	633	**21,500**
Losses (gains) on sales of marketable securities and investment securities, net	**14**	(43)	**116**
Losses on devaluation of fixed assets, net	**2,306**	—	**19,216**
Losses (gains) on disposal of fixed assets, net	**650**	(6)	**5,416**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	**13,147**	25,125	**109,558**
Inventories	**5,542**	14,179	**46,183**
Other current assets	**4,480**	(29,898)	**37,333**
Notes and accounts payable, trade	**(9,726)**	11,463	**(81,050)**
Advances received from customers	**(488)**	(4,148)	**(4,066)**
Other current liabilities	**(1,366)**	(686)	**(11,383)**
Other	**(241)**	551	**(2,008)**
Total	**20,514**	28,025	**170,950**
Interest and dividends income received	**350**	431	**2,916**
Interest paid	**(379)**	(326)	**(3,158)**
Income taxes paid, net	**(750)**	(10,798)	**(6,250)**
Net cash provided by operating activities	**19,734**	17,332	**164,450**
Cash flows from investment activities:			
Payments for purchases of marketable securities	**—**	(9,999)	**—**
Proceeds from sales of marketable securities	**8,000**	3,236	**66,666**
Payments for purchases of fixed assets	**(5,882)**	(11,433)	**(49,016)**
Proceeds from sales of fixed assets	**4,070**	4,925	**33,916**
Payments for purchases of intangible assets	**(2,142)**	(2,224)	**(17,850)**
Payments for purchases of investment securities	**(1,387)**	(1,316)	**(11,558)**
Proceeds from sales of investment securities	**30**	343	**250**
Payments for long-term loans receivable	**(340)**	(53)	**(2,833)**
Repayments of long-term loans receivable	**932**	1,351	**7,766**
Decrease (increase) in short-term loans receivable	**(16)**	(119)	**(133)**
Payment for additional investment in consolidated subsidiary	**—**	(1,738)	**—**
Payments for purchases of stock in subsidiary newly consolidated	**(1,893)**	—	**(15,775)**
Other	**654**	588	**5,450**
Net cash provided by (used in) investment activities	**2,026**	(16,439)	**16,883**
Cash flows from financing activities:			
Proceeds from long-term debt	**—**	5,988	**—**
Repayments of long-term debt	**(4,874)**	(12,768)	**(40,616)**
Decrease (increase) in short-term borrowings	**(1,267)**	(1,134)	**(10,558)**
Dividends paid	**(1,769)**	(1,772)	**(14,741)**
Other	**(259)**	(29)	**(2,158)**
Net cash used in financing activities	**(8,171)**	(9,716)	**(68,091)**
Effect of exchange rate changes on cash and cash equivalents	**(433)**	(53)	**(3,608)**
Net increase (decrease) in cash and cash equivalents	**13,156**	(8,877)	**109,633**
Cash and cash equivalents at the beginning of the year	**38,873**	47,476	**323,941**
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	**—**	273	**—**
Cash and cash equivalents at the end of the year (Note 11)	**¥ 52,029**	¥ 38,873	**$ 433,575**

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations that include the construction, sale, after-sales maintenance and landscaping of custom-built and other homes; and other lifestyle-related businesses, including the sale and brokerage of real estate, leasing and golf course management.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (together, the "Companies") are English versions of those which have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan and filed with the Ministry of Finance 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 and practices in Japan but is presented herein as additional information.

As permitted amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of individual amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ACCOUNTING CHANGES

(a) *Retirement benefits to directors and corporate auditors*
Until the year ended March 31, 2001, retirement benefits for the Company's directors and corporate auditors were charged to income when paid. Effective April 1, 2001, the Company changed its accounting method to provide for retirement benefits for directors and corporate auditors to state the liability at 100% of the amount required by the Company's internal regulation in order to achieve a better matching of revenues and expenses by allocating the retirement benefits for directors and corporate auditors over the related service periods and to establish a solid financial position.

The effect of this change was to decrease operating income by ¥87 million (US$659 thousand) and income before income taxes and minority interests by ¥629 million (US$4,765 thousand) for the year ended March 31, 2002, compared with the case on which the previous method was adopted, respectively.

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

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

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

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

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

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

As a result of this change, the Company posted ¥22,659 million (US$188,825 thousand) in amortization of actuarial differences as an extraordinary loss. The effect of this change was to increase operating income by ¥2,186 million (US$18,216 thousand) and to decrease income before income taxes and minority interests by ¥20,472 million (US$170,600 thousand) for the year ended March 31, 2003, compared with the case on which the previous method was adopted, respectively.

(2) SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of consolidation and investments in affiliates*
The consolidated financial statements include the accounts of the Company and, with exceptions which are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b) *Translation of foreign currency transactions and accounts*
Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical rates.

(c) *Statements of cash flows*
The 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 has been 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 has been provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The warranty reserve for completed constructions is included in other current liabilities.

(g) *Accrued employees' retirement benefits*
Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the plan assets at year-end.

Until the year ended March 31, 2002, unrecognized actuarial gains and losses were amortized from next year over 5 years.

Effective April 1, 2002, this was shifted to a new method of a one time lump sum amortization for the period incurred in starting during the current accounting period.

(h) *Accrued retirement benefits to directors and corporate auditors*
Accrued retirement benefits to directors and corporate auditors are provided based on the amount required for the year-end in accordance with the established Company's internal regulations. Any amounts eventually payable to directors and corporate auditors upon retirement are subjected to approval by the shareholders.

(i) *Marketable securities and investments*
Marketable securities and investments are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the short term, are reported at fair value, and the related unrealized gains and losses are included in earnings; ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

The Company determines cost of securities sold by the moving average method.

(j) *Inventories*
Inventories other than finished goods are stated at cost, which is determined by the specific identification method. Finished goods are stated at moving average cost.

(k) *Property, plant and equipment*
Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs and minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the differ-

ence between the net book value and salvage or sales proceeds is charged or credited to income.

Japanese tax regulations allow a company to defer capital gains on the sale of real estate if the company intends to offset such gains against the cost of newly acquired fixed assets. When such accounting is followed, the cost of the new fixed assets is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation.

Under accounting principles generally accepted in Japan, the amount to be deferred is accounted for as other expenses or as an appropriation of retained earnings to special reserves, depending on the circumstances.

(l) *Timberland*
Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost. The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

AGE IN YEARS	PROCEDURES
0	Sowing, seeding at nursery
1	Planting after land preparation
1–6	Weeding
8	Vine cutting
10–14	Salvage cutting
14	Pruning
16–25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(m) *Revenue recognition*
Sales are generally recognized at the time the goods are delivered to the customers.

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

Contract revenues, representing revenues from custom-built houses, are recorded when the completed houses are accepted by customers.

(n) *Finance leases*
Finance leases of the Companies, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(o) *Income taxes and retained earnings appropriated for special reserves*
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.

The Companies are permitted to deduct for tax purposes certain special reserves if they are recorded in their books as appropriations of retained earnings or as charges to income. The special reserves, when reversed to unappropriated retained earnings or returned to income, become taxable. The effect of the reserves is a deferral of income taxes.

(p) *Appropriations of retained earnings*
Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded upon approval by the shareholders as required under Japanese law.

(q) *Earnings per share of common stock*
The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

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

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

(s) *Reclassifications*
Certain accounts in the consolidated financial statements for the year ended March 31, 2002 have been reclassified to conform to presentation in 2003.

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 ¥120=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2003. 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, 2003 and 2002 were as follows;

	MILLIONS OF YEN			
	2003			
	CARRYING VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities classified as:				
Available-for-sale:				
Equity securities	¥14,288	¥3,999	¥(1,244)	¥17,044
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	22,805	—	—	22,805

	MILLIONS OF YEN			
	2002			
	CARRYING VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities classified as:				
Available-for-sale:				
Equity securities	¥15,525	¥6,022	¥(1,927)	¥19,621
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	16,396	—	—	16,396

	THOUSANDS OF U.S. DOLLARS			
	2003			
	CARRYING VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities classified as:				
Available-for-sale:				
Equity securities	$119,066	$33,325	$(10,366)	$142,033
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	190,041	—	—	190,041

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 were as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS	
	2003			
	AVAILABLE-FOR-SALE	HELD-TO-MATURITY	AVAILABLE-FOR-SALE	HELD-TO-MATURITY
Due within one year	¥—	¥22,445	$—	$187,041
Due after one year through five years	—	359	—	2,991
	¥—	¥22,805	$—	$190,041

The difference between the above carrying value 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, 2003 and 2002 comprised:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Standing timber:			
Mature timber	¥10,386	¥10,087	$86,550
Growing timber	731	866	6,091
	11,117	10,953	92,641
Land	478	477	3,983
	¥11,595	¥11,431	$96,625

The timberland accounts at March 31, 2003 and 2002 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of timberland:

MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
2003	2002	2003
¥268	¥268	$2,233

7. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2003 generally represented short-term borrowings which bore interest of 1.44% per annum. Long-term debt at March 31, 2003 and 2002, are summarized as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Loans, principally from banks and insurance companies, due 2004 to 2008 with interest of 4.93%:			
Secured	¥7,279	¥ 6,895	$ 60,658
Unsecured	993	1,680	8,275
Unsecured floating rate Euro-yen bonds:			
LIBOR plus 0.68 basis points, due 2003	1,200	1,200	10,000
LIBOR plus 0.92 basis points, due 2003	500	500	4,166
	9,972	10,276	83,100
Portion due within one year	2,426	760	20,216
	¥7,545	¥ 9,515	$ 62,875

The following assets were pledged to secure bank loans and long-term debt at March 31, 2003 and 2002:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Receivables—Notes and accounts, trade	¥ 219	¥ —	$ 1,825
Finished goods, logs and lumber	561	—	4,675
Land	1,480	1,533	12,333
Buildings and structures	3,061	2,637	25,508
Machinery and equipment	9,606	7,143	80,050
Timberland	2,085	1,862	17,375
	¥17,015	¥13,177	$141,791

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

YEARS ENDING MARCH 31,	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
2004	¥7,362	$61,350
2005	141	1,175
2006	—	—
2007	—	—
2008	—	—
Thereafter	41	341
	¥7,545	$62,875

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 2003 and 2002 was 42.0%. In accordance with a change to a portion of the Local Tax Law, effective for years beginning April 1, 2004, the statutory tax rate will be changed from 42.0% to 40.0%.

As a result, net deferred tax assets for fiscal 2003 decreased ¥444 million (US$3,700 thousand), and unrealized gains on available-for-sale securities increased ¥54 million (US$450 thousand).

Also, net expenses increased ¥499 million (US$4,158 thousand).

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

	2003	2002
Statutory tax rate	42.0%	42.0%
Non-deductible expense for tax purposes	—	9.9
Per capita portion of Inhabitant Tax	—	7.8
Valuation allowance	—	22.0
Other	—	(2.8)
Effective income tax rate	—	78.9%

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,430	¥ 1,858	$ 20,250
Provision for guarantee for after-cost of construction	226	203	1,883
Advances received	361	418	3,008
Accrued enterprise taxes	476	37	3,966
Devaluation of real estate for sale and other assets	5,297	1,574	44,141
Devaluation of property, plant and equipment	922	—	7,683
Pension and severance costs	12,800	6,165	106,666
Unrealized intercompany profit	309	308	2,575
Tax loss carryforwards	2,901	3,887	24,175
Other	1,874	1,567	15,616
Gross deferred tax assets	27,601	16,022	230,008
Valuation allowance	(2,843)	(3,713)	(23,691)
Total deferred tax assets	24,757	12,309	206,308
Deferred tax liabilities:			
Deferred gains on sales of property	(1,090)	(1,145)	(9,083)
Unrealized gain on available-for-sale securities	(1,100)	(1,716)	(9,166)
Gain on securities contributed to employee retirement benefit trust	(3,128)	(3,284)	(26,066)
Other	(1,290)	(1,159)	(10,750)
Gross deferred tax liabilities	(6,610)	(7,306)	(55,083)
Net deferred tax assets	¥18,147	¥ 5,002	$ 151,225

Net deferred tax assets are included in the consolidated balance sheets at March 31, 2003 and 2002 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current assets—Deferred income taxes	¥ 7,376	¥ 3,689	$ 61,466
Investment and other assets—Deferred income taxes	11,796	1,628	98,300
Current liabilities—Other	—	(0)	—
Long-term liabilities—Deferred income taxes	(1,024)	(315)	(8,533)
Net deferred tax assets	¥18,147	¥ 5,002	$ 151,225

9. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Gain on sales of property, plant and equipment	¥ 111	¥ 110	$ 925
Gain on sales of investment securities	0	43	0
Loss on sales of property, plant and equipment	(141)	—	(1,175)
Loss on sales of investment securities	(14)	—	(116)
Loss on disposal of property, plant and equipment	(493)	—	(4,108)
Provision of retirement allowance for directors	—	(542)	—
Other, net	(452)	950	(3,766)
	¥(988)	¥ 561	$(8,233)

10. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2003 and 2002 were ¥1,027 million (US$8,558 thousand) and ¥1,000 million, respectively.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2003 and 2002 consist of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Cash and time deposits	**¥29,685**	¥31,004	**$ 247,375**
Short-term investments	**22,399**	7,997	**186,658**
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	**(55)**	(129)	**(458)**
Cash and cash equivalents	**¥52,029**	¥38,873	**$ 433,575**

12. SHAREHOLDERS' EQUITY

On October 1, 2001, an amendment to the Japanese Commercial Code (the "Code") became effective. The amendment eliminates the stated par value of the Company's shares, which resulted in all outstanding shares having no par value at March 31, 2002. The amendment also provides that all issuances after September 30, 2001, will be of shares with no par value. Before the date on which the amendment came into effect, the Company's share of common stock account had a per value of ¥50 per share.

Under the Code, at least 50% of the issue price of new shares is required to be designated as the common stock account. The portion to be designated as the common stock account is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as the common stock account are credited to capital surplus account.

The Code provides that an amount equivalent to a minimum of 10% of cash dividends and other distributions from retained earnings paid by the Company and its subsidiaries be appropriated as a legal reserve. No further appropriation is required when the total amount of capital surplus account and legal reserve equals 25% of the common stock account. The balance of the reserve may be used to reduce a deficit and/or may be transferred to the common stock account.

The Code also provides that, to the extent the sum of capital surplus account and legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders meeting.

The balances of the legal reserve of the Company at March 31, 2003 and 2002, which are included in retained earnings on the accompanying consolidated balance sheets, are ¥2,857 million (US$23,808 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.

As of March 31, 2003, the total amount available for dividends from the Company was ¥66,041 million (US$550,341 thousand). This figure is included in retained earnings as recorded on the Company's consolidated books.

13. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2003 and 2002 were ¥5,984 million (US$49,866 thousand) and ¥5,710 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
	2003	2002	2003
Buildings and structures	**¥13,164**	¥14,149	**$ 109,700**
Machinery and equipment	**9,180**	8,937	**76,500**
Other	**203**	213	**1,691**
Accumulated depreciation	**(11,911)**	(12,022)	**(99,258)**
	¥10,636	¥11,277	**$ 88,633**

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Depreciation	**¥5,720**	¥5,340	**$47,666**
Interest expenses	**246**	282	**2,050**

Depreciation costs are calculated based on the straight-line 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, 2003 and 2002 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2003	2002	2003
Current obligation	**¥ 4,469**	¥ 4,706	**$37,241**
Long-term obligation	**6,334**	6,826	**52,783**
Present value of lease payments	**¥10,803**	¥11,532	**$90,025**

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2003 and 2002 were ¥271 million (US$2,258 thousand) and ¥592 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, 2003 and 2002, comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Buildings and structures	¥ —	¥ 98	$ —
Machinery and equipment	**1,237**	1,467	**10,308**
Other	**3**	6	**25**
Accumulated depreciation	**(817)**	(974)	**(6,808)**
	¥ 423	¥ 598	**$ 3,525**

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation	**¥243**	¥277	**$2,025**
Interest income	**35**	131	**291**

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, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current obligation	**¥ 172**	¥ 413	**$1,433**
Long-term obligation	**256**	822	**2,133**
Present value of lease receipts	**¥ 428**	¥1,235	**$3,566**

14. Contingent Liabilities

Contingent liabilities as at March 31, 2003 and 2002, for loans guaranteed amounted to ¥6,640 million (US$55,333 thousand) and ¥4,297 million, and for notes discounted and endorsed in the ordinary course of business amounted to ¥78 million (US$650 thousand) and ¥82 million.

15. Derivatives and Hedging Activities

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps, and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

16. Severance Indemnity Benefits and Pension Plans

Sumitomo Forestry and some of its domestic consolidated subsidiaries offer their employees both a lump-sum benefit at retirement and a noncontributory funded defined benefit pension plan. Others offer a lump-sum benefit at retirement only. These systems are open to employees who meet set conditions, but substantially all employees are eligible.

Retirement benefits are calculated based on the employees basic rate of pay, length of service, termination circumstances, and other factors. The employee may opt for either a lump-sum payment or annuity payments.

The Company and some of its domestic consolidated subsidiaries offer a contributory government plan in addition to the systems above. Substantially all employees are eligible. This is a public pension scheme that is partially funded by the Japanese government, and is included as part of this package. The government's contribution to the pension fund is based on the Employees' Pension Law. The contributions for both contributory and noncontributory retirement benefit plans go into a pension fund held in trust.

Sumitomo Forestry and some of its subsidiaries were released by the Japanese government from some payment obligations that arise in the future in connection with a portion of the contributory government plan described above, as of October 18, 2003. The government will assume these future payment obligations.

As of the date of this release, Sumitomo Forestry and some of its subsidiaries will dispose of past payment obligations under the contributory government plan and pension plan assets returned to the Japanese government as extinguished for accounting purposes.

As of March 31, 2003, total assets in the contributory government plan pension fund were ¥9,347 million (US$77,891 thousand).

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	**¥(40,541)**	¥(44,072)	**$(337,841)**
Fair value of plan assets	**16,384**	27,349	**136,533**
Unrecognized actuarial loss	—	9,252	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	**¥(24,157)**	¥ (7,470)	**$(201,308)**

The components of net periodic benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 3,210	¥ 3,454	$ 26,750
Interest cost	1,434	1,500	11,950
Expected return on plan assets	(805)	(894)	(6,708)
Recognized actuarial loss	22,659	1,345	188,825
Amortization of prior service cost	—	—	—
Net periodic benefit costs	26,499	5,405	220,825
Profits from partial refund in lieu of welfare pension	(7,045)	—	(58,708)
Total	¥ 19,453	¥ 5,405	$ 162,108

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

Assumptions used for the year ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	2.5%	3.5%
Expected rate of return on plan assets	0.8%	3.5%
Recognition period of actuarial gain/loss	1 year	5 years

17. SEGMENT INFORMATION

A) INDUSTRY SEGMENT INFORMATION—

The Companies' business is classified into the following three segments based on the similarities of the types and nature of business:

Timber and building materials: Manufacturing or purchasing and sale of timber and building materials

Housing: Construction of houses, buildings and their exteriors, gardening, planting and sale of interiors

Other: Brokerage of real estate, golf course management, leasing and other

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

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

	Millions of yen					
Year ended March 31, 2002	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥253,154	¥381,588	¥ 9,987	¥644,730	¥ —	¥644,730
Intersegment transfers	17,701	389	8,063	26,154	(26,154)	—
Total	270,856	381,978	18,050	670,885	(26,154)	644,730
Operating expenses	268,973	377,016	17,470	663,461	(21,770)	641,690
Operating profit	¥ 1,882	¥ 4,961	¥ 579	¥ 7,424	¥ (4,384)	¥ 3,040
ldentifiable assets, depreciation and capital investment:						
ldentifiable assets	¥142,427	¥150,358	¥42,338	¥335,124	¥ 30,407	¥365,531
Depreciation and amortization	2,101	2,247	976	5,325	(35)	5,289
Capital investment	6,081	3,083	1,064	10,228	(104)	10,124

	Thousands of U.S. dollars					
Year ended March 31, 2003	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	**$2,217,316**	**$3,082,375**	**$ 76,133**	**$5,375,833**	**$ —**	**$5,375,833**
Intersegment transfers	**145,325**	**4,466**	**72,875**	**222,675**	**(222,675)**	**—**
Total	**2,362,641**	**3,086,841**	**149,016**	**5,598,508**	**(222,675)**	**5,375,833**
Operating expenses	**2,343,991**	**3,004,166**	**145,550**	**5,493,716**	**(190,991)**	**5,302,725**
Operating profit	**$ 18,650**	**$ 82,666**	**$ 3,458**	**$ 104,791**	**$ (31,683)**	**$ 73,100**
ldentifiable assets, depreciation and capital investment:						
ldentifiable assets	**$1,211,858**	**$1,108,416**	**$266,116**	**$2,586,400**	**$ 391,275**	**$2,977,683**
Depreciation and amortization	**24,466**	**18,475**	**6,991**	**49,941**	**(66)**	**49,875**
Capital investment	**21,891**	**11,808**	**4,841**	**38,550**	**4,133**	**42,691**

Notes: (Year ended March 31, 2002)
As stated in Note 3 (1) (a), the Company changed accounting policy for retirement benefits to directors and corporate auditors during the term under review. As a result, as compared with the previous accounting method for retirement benefits, operating expenses contained in Elimination and/or corporate increased by ¥87 million (US$659 thousand), and operating income declined by the same amount.

(Year ended March 31, 2003)
As stated in Note 3 (1) (b), the Company changed the retirement benefit accounting system so that the unrecognized actuarial losses will be amortized in one year instead of next five years. ¥22,659 million (US$188,825 thousand) of the losses is included in other expenses. This change in the method of amortization lowered the operating expenses of ¥229 million (US$1,908 thousand) in the timber segment, ¥1,828 million (US$15,233 thousand) in the housing and building construction segment and ¥9 million (US$75 thousand) in other segment. These decrease of expenses led to increases in operating profit.

b) Geographic area information and export sales information—

As the total sales by consolidated subsidiaries outside Japan and the total export sales overseas are less than 10% of consolidated net sales, information relating to geographic area information and export sales information has been omitted.

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Independent Auditors' Report

The Board of Directors and Shareholders
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 3 (1)(a) to the consolidated financial statements, Sumitomo Forestry Co., Ltd. changed its accounting method of retirement benefit to directors and corporate auditors in the year ended March 31, 2002.

As discussed in Note 3 (1)(b) to the consolidated financial statements, Sumitomo Forestry Co., Ltd. changed its accounting method of employee's retirement benefits in the year ended March 31, 2003.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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 to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2003

See Note 2 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.