

ensuring sustainable growth

ANNUAL REPORT 2003
YEAR ENDED MARCH 31, 2003

Since its establishment in 1691, Sumitomo Forestry Co., Ltd. has maintained the responsible management of woodlands as the heart of its operations and activities. With “Sustainable Forestry” as our underlying philosophy, we have endeavored to ensure stable forests through a deliberate process of afforestation and trimming. Based on centuries of unbroken tradition, the Sumitomo Forestry Group will continue to focus on sustainability as its management core and fulfill its social responsibilities through activities in harmony with society, the economy, and the environment.

A Message from the President 2

Management Restructuring Plan Progress Report 8

Review of Operations 10

Environmental Stewardship and Corporate Citizenship 18

See Our Core Strengths 22

Financial Section 23

Overseas Network 44

Subsidiaries and Affiliates 45

Organization Chart/Corporate Data 46

Board of Directors, Auditors and Executive Officers 47

Financial Highlights

YEARS ENDED MARCH 31	MILLIONS OF YEN					THOUSANDS OF U.S. DOLLARS
	2003	2002	2001	2000	1999	2003
Net sales and contract revenues	¥645,100	¥644,730	¥682,375	¥699,594	¥620,615	\$5,375,833
Operating income	8,772	3,040	15,999	13,549	6,210	73,100
Net (loss) income	(15,439)	465	6,994	5,708	134	(128,658)
Total assets	357,322	365,531	371,102	360,935	346,293	2,977,683
Total shareholders' equity	129,727	147,440	150,979	144,914	139,301	1,081,058
ROE (%)	(11.1)	0.3	4.7	4.0	0.1	—
	YEN					U.S. DOLLARS
Net (loss) income per share	¥ (87.53)	¥ 2.64	¥ 39.64	¥ 32.36	¥ 0.76	\$ (0.72)
Cash dividends per share	10.00	10.00	10.00	10.00	10.00	0.08

Note: Yen amounts have been translated for convenience only, at ¥120=US\$1.

MANAGEMENT PRINCIPLES

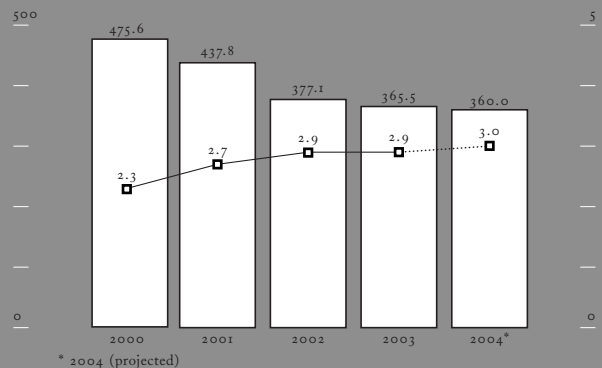
"Building Trust through a Commitment to Customers and Unwavering Corporate Governance and Compliance"

Based on government statistics in 1999, 88.5% of the Japanese people identified wood as their preferred material in housing construction, an increase of 6.6 percentage points compared with a decade earlier. Wood has long been valued as a natural material, closely associated with health, comfort, and ease of application. In recent years, amid increased concerns over global warming and other environmental issues, wood has been the focus of much attention.

Since its establishment, Sumitomo Forestry has been engaged in a variety of business fields focused on wood and wood products. With the management of woodlands as our underlying platform, and by way of activities from upstream through downstream including forestry, supplying and manufacturing timber and building materials, and housing, our mission is to give people more opportunities to benefit from the natural aspects of wood in an effort to provide well-being and comfort. Our business development and these activities are founded on the principles of "customer first" and "compliance." Through an unwavering commitment to these principles, Sumitomo Forestry works to the highest standards and contributes to society as a responsible corporate citizen.



OWNER-OCCUPIED HOUSING STARTS
AND COMPANY'S SHARE (CONSOLIDATED) (Thousands of units, %)



OPERATING ENVIRONMENT

MEDIUM- AND LONG-TERM OUTLOOK *Despite a drop in the number of households brought on by the decline in population, demand for the renovation of existing residences continues to rise.*

In 1998, government statistics identified the total number of households in Japan at 44,359,000. Today, the number of dwellings is estimated at 50,246,000, which is considered more than sufficient for the country's needs. In addition, a government-related research institute has forecast Japan's population to decline from 2007 and the number of households to decrease from 2015.

On the other hand, 1998 statistics also identified that 48.4% of dwellings in Japan had been constructed prior to 1981, when revisions were made to the Building Standard Law, requiring more stringent construction against earthquake damage. In reference to this report, experts have highlighted significant safety concerns in connection with Japan's housing market. Moreover, as demand for greater floor space per household increases, and people focus on the problem of small rental accommodation, we anticipate renewed demand for reconstruction and major refurbishment as consumers look toward improving their living standards.

CONDITIONS IN FISCAL 2003 *Sumitomo Forestry's operating environment is characterized by a shrinking housing market owing to weak personal consumption and prolonged downturn in the Japanese economy.*

During fiscal 2003, ended March 31, 2003, the Japanese economy remained mired in difficult operating conditions, characterized by record unemployment and stagnant private sector capital investment.

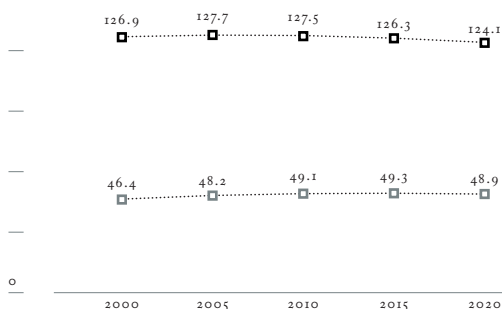
In the housing industry, general economic downturn and prolonged anxiety over job and income security further dampened consumers' eagerness to purchase homes. New housing starts during the period declined 2.4% compared with the previous fiscal year to 1,145,533 units, and new housing starts of owner-occupied homes, a segment closely related to the Group's core business, declined 3.1% year on year to 365,507 units. The timber and building materials industry, which is extremely vulnerable to fluctuations in the housing market, also experienced a downward turn.

FISCAL 2003 MANAGEMENT POLICIES AND BUSINESS RESULTS

OVERVIEW Despite this challenging environment, Sumitomo Forestry focused on streamlining production costs and reducing selling, general and administrative (SG&A) expenses.

FUTURE ESTIMATES OF JAPAN'S POPULATION AND NUMBER OF HOUSEHOLDS

150 (Millions)



■ FUTURE ESTIMATES OF JAPAN'S POPULATION
■ NUMBER OF HOUSEHOLDS

Source: National Institute of Population and Social Security Research

As a result, operating income surged 188.6% year on year to ¥8,772 million, on total sales in line with the previous fiscal year. In the absence of any prospects for significant recovery in our operating environment, we booked an extraordinary loss of ¥38.8 billion in an effort to strengthen our corporate structure and to ensure financial health. After recording an extraordinary gain and adjusting for income taxes, which will be outlined in more detail later, Sumitomo Forestry posted a net loss of ¥15.4 billion for the period. For the immediate future, we have identified the Group's core businesses as the overseas business and the existing housing business, and are actively nurturing and hastening expansion in these fields.

STRENGTHENING FINANCIAL POSITION AND BOOSTING EARNINGS *We are looking to strengthen our financial position through our Management Restructuring Plan, and achieve increased profits following an earnings recovery.*

Against the backdrop of a harsh operating environment, the Sumitomo Forestry Group has shifted its management focus from expanding sales to enhancing earnings. We have continued to promote those initiatives identified in the Company's Management Restructuring Plan, formulated at the end of fiscal 2002, and are working to establish a corporate structure capable of generating an annual increase in income based on a sustained level of completed projects of 10,000 units per year. In the fiscal year under review, we introduced an executive officer system and at the same time reviewed our headquarters organization with the aim of responding quickly to changes in the

operating environment. The next step has been to strengthen our profit structure by streamlining SG&A expenses, cutting production costs in our Housing business, enhancing product development, and reforming sales staff training in an effort to bolster marketing capabilities. As a result, consolidated total sales edged up 0.1% compared with the previous fiscal year to ¥645.1 billion, while operating income jumped 188.6% year on year to ¥8,772 million, despite a cutback in owner-occupied new housing starts.

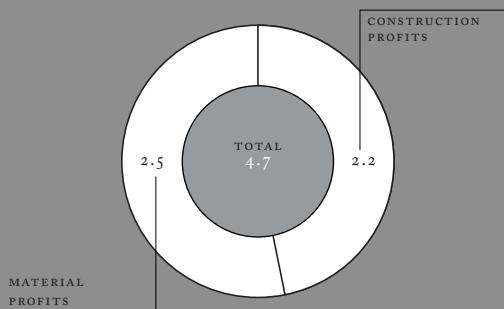
On a parent company basis, Sumitomo Forestry Co., Ltd. was successful in reducing SG&A expenses by ¥3.6 billion, in line with initial targets, and production costs by ¥4.7 billion, slightly less than the initial target of ¥5.0 billion. The Company has left no stone unturned in its efforts to address pressing issues and has contributed significantly to earnings growth.

STRENGTHENING FINANCIAL POSITION *The Sumitomo Forestry Group recorded an extraordinary loss, which included transaction difference of new accounting standard for retirement benefit and a write-down on the value of a portion of equity holdings, with the aim of igniting strong operating recovery and eliminating future destabilizing factors.*

The Sumitomo Forestry Group has adopted a number of initiatives including the write-down of real estate for sale, redemption of bonds, and the repayment of debt in an effort to combat growing uncertainty in the economic environment. The Group has also actively pursued initiatives geared toward strengthening its consolidated financial position and

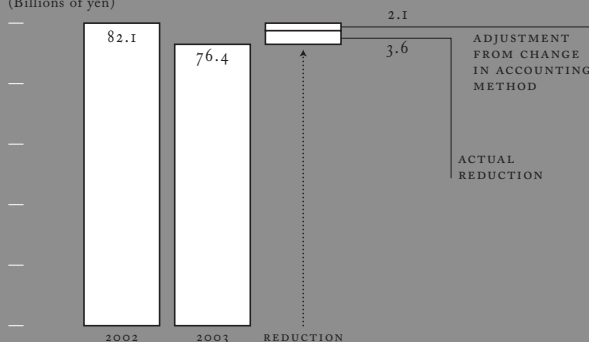
COST REDUCTIONS IN PRODUCTION (NON-CONSOLIDATED)

(Billions of yen)



REDUCTION IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (NON-CONSOLIDATED)

(Billions of yen)



offsetting the impact of asset devaluation and movements in the cost of financial instruments.

Specifically, the Sumitomo Forestry Group shifted from recognizing the actuarial difference attributed to the adoption of a new accounting standard for retirement benefits on a straight-line basis over five years commencing the following year in which the difference arises to recognizing a lump-sum loss in the year in which the difference occurs. In addition, we reduced the discount rate in calculating projected benefit obligation from 3.5% to 2.5%. Accordingly, the total extraordinary loss relating to retirement benefits amounted to ¥22,659 million. Moreover, the Group recorded an extraordinary devaluation loss relating to Group company-provided employee housing and dormitories earmarked for future sale, and idle assets such as land identified for plant construction, totaling ¥10,093 million. At the same time, the Group incurred a loss on devaluation of investment securities of ¥2,580 million. As a result, the total extraordinary loss for the period came to ¥38,776 million. In extraordinary gains, we posted ¥7,157 million representing the partial refund in lieu of welfare pension. As a result of all these factors, the net extraordinary loss for the fiscal year under review was ¥31,618 million.

The Sumitomo Forestry Group is committed to establishing a stable operating platform and ensuring significant increase in operating income. We are confident that concrete steps have been taken to achieve these objectives, but not however without a price. In our efforts to enhance the Group's financial health and standing, we have incurred significant extraordinary losses. As a result, the Sumitomo Forestry Group recorded a net loss for the period of ¥15,439 million.

CORE BUSINESSES FOR FUTURE GROWTH *The Group's future is linked to the expansion of its overseas and existing housing businesses, and to restructuring business portfolios to combat overemphasis on domestic new housing starts.*

Currently, the Group's core activities comprise the Timber and Building Materials business and the Housing business. The Timber and Building Materials business principally provides materials to the building industry, and the Housing business engages mainly in the construction of dwellings in Japan. Accordingly, both rely heavily on the domestic market, particularly on new housing starts.

Moreover, we have positioned the overseas and existing housing businesses as the foundation for the next stage of growth, and through a review of our existing business portfolio, we plan to establish a more balanced earnings platform.

In the fiscal year under review, we actively worked to expand production and sales, develop new products, and cultivate new markets in our overseas business. Presently, about three-fifths of wood building materials, including plywood, particleboard, medium density fiberboard (MDF) and laminated veneer lumber (LVL), produced by our overseas manufacturing plants are shipped to countries other than Japan. In the future, we will continue to allocate management resources to business opportunities outside Japan, focusing on growth markets such as North America, China and ASEAN countries, Oceania and the Pacific Rim.

Sumitomo Forestry is aggressively investing in opportunities that promote the expansion of the Home Remodeling and Real Estate Brokerage businesses, which deal with existing housing, and has positioned second-hand homes as a core business. We have also linked home remodeling with new housing construction with the aims of increasing brand awareness and enhancing market efficacy and development. The Home Remodeling business, however, does not limit itself to the approximately 150,000 units the Group has constructed, but targets existing housing nationwide. In fiscal 2003, we increased the number of sales outlets by seven and have expanded business steadily. In the Real Estate Brokerage business, we are focusing on the major metropolitan areas and the development of a marketing process closely linked to the unique characteristics of each particular region.

OUTLOOK

We are working to increase profit based on the Group's Management Restructuring Plan.

For the fiscal year commencing April 1, 2003, the housing market is anticipated to remain weak, battered by overall harsh economic and operating conditions.

Although we will continue to reform our organization and systems, reduce production costs and SG&A expenses, and fortify marketing capabilities while working to expand business scale in the relatively steady fields of rental housing and our overseas and existing housing businesses, we see fiscal 2004 as

the year in which our Management Restructuring Plan initiatives will bear fruit.

In particular, we expect to start realizing the positive effects of the Network Aided Construction Support System (NACSS), an IT production support system introduced nationwide in June 2002. This system supports the Group's post and beam construction custom-built housing, which comprises more than 90% its housing business and is expected to generate production cost savings of ¥5.0 billion.

As a result of all these factors, we forecast sales for the fiscal year ending March 31, 2004 of ¥660.0 billion, a year-on-year increase of 2.3%, operating profit of ¥12.0 billion, an increase of 36.8%, and net income of ¥7.0 billion, a turnaround of ¥22.4 billion.

TOWARD SUSTAINABLE MANAGEMENT

We will address all frontline issues with unwavering dedication in an effort to ensure sustained business development.

The Sumitomo Forestry Group has been principally engaged in woodlands management for over three centuries. The Group owns an area of timberland that accounts for approximately one-thousandth of Japan's total landmass. Managed under a policy of sustainable forestry management, Sumitomo Forestry combines environmental and commercial concerns to ensure continuity and sustainability of both the forest ecosystem and business growth.

Our scope of operations currently comprises overseas business, timber and building materials, and housing and housing-related businesses underpinned by a theme of sustainability and harmonious coexistence with nature, society and industry. Our focus is not limited to environmental conservation, but includes business development in harmony with the regions in which we operate, delivering to consumers a better quality of life through high-quality products, contributing to society as a whole in accordance with accepted practice and custom, and providing employment opportunities for the community at large including positive action initiatives. Sumitomo Forestry is constantly reviewing its responsibilities to society and based on a diversity of themes, is committed to fulfilling expectations. Some examples of the Group's recent corporate citizenship activities include the establishment of an educational foundation through our subsidiary P.T. Kutai Timber Indonesia (KTI)—a manufacturer of high-quality plywood—providing education funding to under-privileged children, and restoration support in instances of natural disaster. Sumitomo Forestry has also contributed to society in Japan through volunteer forestation programs such as the rehabilitation of typhoon-damaged forests located at the foot of Mt. Fuji. In addition, based on a total commitment to customer-first principles and as part of our efforts to review the Group's after-service systems, we established a 24-hour, 365-day direct access call center, a first for the industry, to quickly respond to consumer complaints and inquiries. In our in-house activities, we established a compliance desk,

headed by the General Manager, Administration and the Group's legal counsel, in December 2002, to revitalize our organization and enhance self-regulation. In April 2003, we began a fundamental reform of human resource policies including the evaluation system and compensation structure shifting from a seniority-based system to a performance-based system. In every aspect, Sumitomo Forestry is diligently working to address the needs of current society.

As Chief Executive Officer, I am aware that the solutions to the Group's various challenges and issues lie in the frontline. It is therefore imperative that we maintain constant direct contact with those working on the frontline, and that we remain vigilant in our approach to the market and its needs. I am confident that with this focus we will resolve outstanding issues and effectively implement measures to achieve our objectives.

As our initiatives take root and progressively bear fruit, we will achieve a symbiosis among the environment, society, and the economy. Based on a philosophy of sustainable management, Sumitomo Forestry is dedicated to fulfilling its social responsibilities.



Ryu Yano

President and Chief Executive Officer



1.

Reforming the Management Structure

Following the Company's ordinary general meeting of shareholders, held on June 27, 2002, Sumitomo Forestry reduced the number of directors from 18 to seven. At the same time, we introduced an executive officer system that separates decision-making and other executive functions from operational management functions, in addition to delineating accountability with regard to both the executive and management functions. These moves have already helped to accelerate the decision-making process.

2.

Revamping the Headquarters Organization

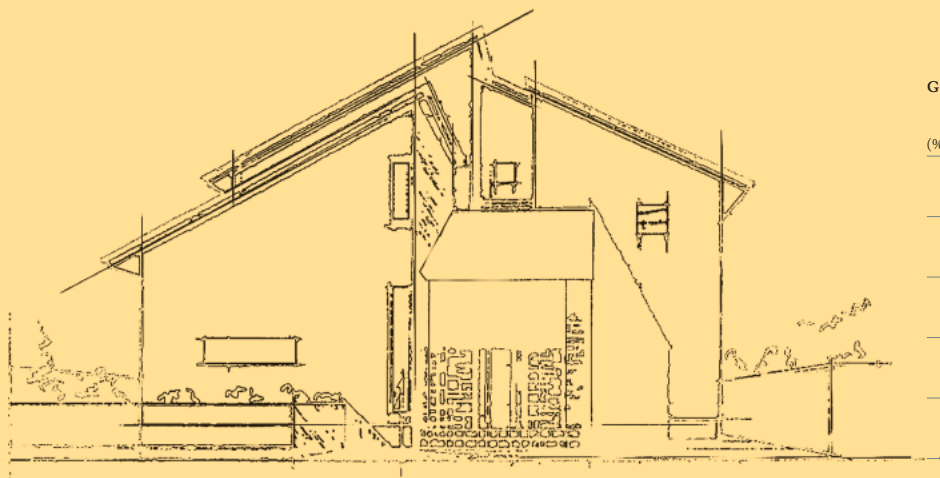
In April 2002, the Company consolidated the budget allocation, investor relations (IR) and other strategic functions under the Corporate Planning Division with the aim of creating a management structure capable of responding more deftly to sudden changes in the operating environment. At the same time, we set up a legal counsel and a risk management group within the General Administrative Division, and in May we established a Risk Management Committee chaired by the General Manager Administration. Moreover, in December 2002 we established a compliance desk, responsible for the entire Group and headed by the General Manager Administration and our legal counsel.

3.

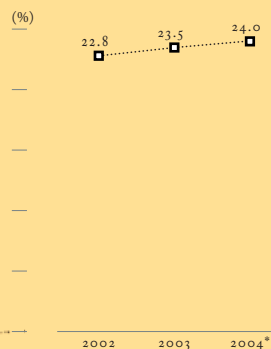
Cutting Production Costs

In the fiscal year under review, Sumitomo Forestry worked to lower materials procurement costs and to streamline the production process in an effort to improve profitability in the Housing segment. As a result, the Company achieved a ¥4.7 billion reduction in production costs in Housing and Housing-Related businesses and, accordingly, the gross profit margin rose to 23.5% for the year, up from 22.8% in fiscal 2002. We are targeting further reductions in production costs of ¥5.0 billion in each of the next two fiscal years for a total reduction of ¥10.0 billion.

Against the backdrop of a persistently difficult operating environment during the fiscal year under review, the Sumitomo Forestry Group steadily implemented a seven-point management restructuring plan. While intended to improve the operating performance and strengthen the financial position of the Company, the plan above all is geared toward achieving sustainable profitability moving forward. The following paragraphs summarize the progress achieved in the first year of the plan.



GROSS PROFIT ON SALES*



* Housing and Housing-Related Business of Sumitomo Forestry Co., Ltd.

** 2004 (projected)

Undertaking 7 measures toward

4.

Reducing Operating Expenses

Sumitomo Forestry implemented Groupwide initiatives to streamline selling, general and administrative (SG&A) expenses in an effort to raise operating efficiency. As a result, the Company achieved a ¥3.6 billion year-on-year decrease in operating expenses related primarily to personnel and advertising and promotion, excluding the impact of changes in accounting standards applicable to retirement benefit allowances.

The principal components in the reduction of SG&A expenses during the year were ¥1.3 billion in personnel expenses (including bonuses and other), ¥2.0 billion in advertising and promotional expenses, ¥0.3 billion in leasing fees (including office rental and other expenses) and ¥0.4 billion in consumables.

COST REDUCTIONS AT SUMITOMO FORESTRY

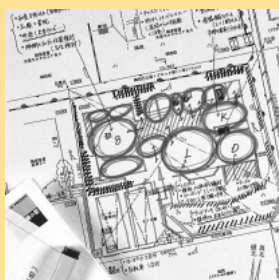
(Billions of yen)

PERSONNEL EXPENSES	1.3
ADVERTISING COSTS	2.0
LEASING FEES	0.3
CONSUMABLES	0.4

5.

Enhancing Product Development

In April 2002, the Company established a new department dedicated to monitoring market demand shifts with an eye to both accelerating and enhancing product development in the domestic housing business. In the fiscal year under review, we launched six new products in response to market trends, namely, Super Natural 500 Oak, GODAI One's Story Grand Life, Proudio Three-Story, the Rialt series for first-time home buyers, GODAI Waraku (a traditional Japanese-style model), and GODAI One's Story II, an upgraded version of our mainstay GODAI One's Story model.



6.

Strengthening the Collective Housing Business

In the collective housing business, we worked to attract orders by flexibly providing solutions matching the specific requirements of individual projects, from reinforced concrete structures to two-by-four wood-frame buildings. During the year, we concentrated on developing and marketing innovative structural solutions for such facilities as day-care centers for the elderly and dormitories for students of music performance. As a result of these and other activities, sales of completed projects in the collective housing business totaled ¥11,545 million in fiscal 2003, an increase of 33.4% over the previous fiscal year's result.



7.

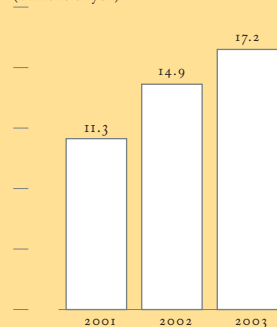
Sharpening our Focus on New Core Businesses

During the year under review, Sumitomo Forestry newly designated two core businesses for future growth: (1) overseas operations and (2) activities related to existing housing in Japan. In overseas operations, the Company strengthened its foothold in the U.S. market with the purchase of a U.S.-based building materials importer. Moreover, we began construction on a pilot housing project after establishing a new joint venture with a U.S.-based housing company. We also acquired an Australia-based MDF manufacturer.

In business activities related to existing housing in the domestic market, Sumitomo Forestry steadily expanded its operations in the home remodeling and real estate brokerage businesses. The Company now boasts a network of 41 stores in its home remodeling business, seven more than at the end of the previous fiscal year, and 46 stores in its real estate brokerage business, an increase of three stores.

SALES IN HOME REMODELING BUSINESS*

(Billions of yen)



* Sales of Sumitomo Forestry Home Tech. Co., Ltd.

sustainable profitability

TIMBER
AND BUILDING
MATERIALS



Despite drooping domestic housing starts, conditions in the timber and building materials market in the first half remained robust, reflecting a reduced supply of imported products, particularly of plywood. In the second half, however, the re-emergence of substantial supply from overseas depressed prices and dampened the operating environment. For the full year, sales and contract revenues in the Timber and Building Materials segment climbed 5.1% over the previous fiscal year's result to ¥266,078 million, and operating profit rose 18.9% to ¥2,238 million.

INTERNATIONAL BUSINESS

Sumitomo Forestry has identified overseas business as a key element in its strategy to ensure future growth. While carrying on with efforts to strengthen its existing building materials production business largely in the Pacific Rim, the Timber and Building Materials segment sharpened its focus on expanding and hastening new business overseas, beginning with distribution and housing in North America.

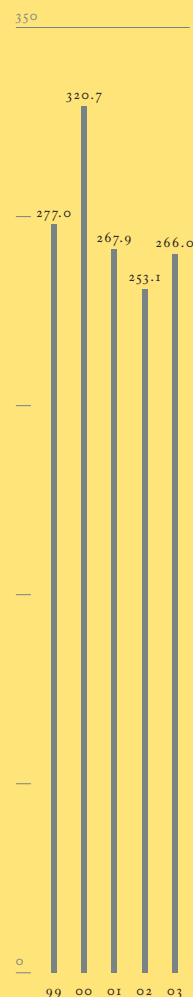
Briefly reviewing the segment's overseas business activities, Nelson Pine Industries Limited (NPIL), our wholly owned subsidiary in New Zealand, commenced commercial production of laminated veneer lumber (LVL) as a new strategic product. In December 2002, the Sumitomo Forestry Group acquired Dominance Industries Pty Ltd., a major manufacturer of medium-density fiberboard (MDF) in Australia. The company's name was changed to Alpine MDF Industries Pty Ltd. shortly after the acquisition. Combining Alpine MDF's activities with those of NPIL, Sumitomo Forestry now boasts four MDF production lines and a place among the top-three MDF producers in the Oceania region.

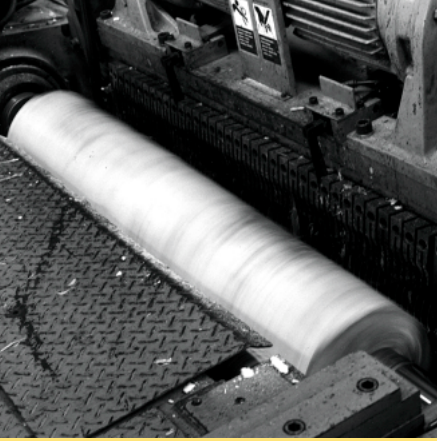
In Indonesia, Group company P.T. Rimba Partikel Indonesia (RPI) continued to manufacture particleboard using wood waste collected from local wood processors throughout Java. Meanwhile, subsidiary P.T. Kutai Timber Indonesia (KTI), located in East Java, stepped up manufacture of composite wood products and expanded exports to Europe, the United States and Asia.

In the United States, Sumitomo Forestry purchased Pacific Wood Products LLC, a building materials importer, to strengthen its foothold in the U.S. market. In a preparatory move for entering the American housing market, in September 2002 Sumitomo Forestry and Seattle-based housing company Bennett Homes, Inc. established a joint venture, Bennett-SFS LLC. Soon after its formation, the new company began construction on a pilot housing project.



**SALES AND
CONTRACT
REVENUES**
(Billions of yen)





KTI strictly avoids the harvesting of natural forests. The company actively promotes the planting of falcata to increase the use of plantation-grown wood as a source of building materials.

NELSON PINE INDUSTRIES LIMITED (NPIL) NPIL was established in 1986 as an MDF manufacturing base. With an annual production capacity of approximately 330 thousand cubic meters, NPIL boasts the largest single-site production capacity of MDF in the world. Compared with other timber building materials, MDF offers an array of attractions. For instance, MDF is manufactured almost entirely from radiata pine, the premier species for large-scale tree planting in New Zealand. And unlike other timber building materials, MDF can be manufactured from small branches and curved sections of the tree, thereby reducing waste. In 2002, NPIL commenced production of LVL, a structural composite lumber known for its strength, dimensional stability and processibility. LVL is gaining popularity in Japan and other parts of Asia, as well as in Oceania and North America, and NPIL is actively working to meet the growing demand. In an effort to reduce raw materials waste, NPIL uses radiata pine to produce LVL and the residual to manufacture MDF.

ALPINE MDF INDUSTRIES PTY LTD. Sumitomo Forestry purchased Australia-based Dominance Industries Pty Ltd. (now Alpine MDF Pty Ltd.) in December 2002 with the aim of satisfying growing demand for MDF in the Pacific Rim. With this purchase, Sumitomo Forestry established itself as a leading MDF manufacturer in Oceania, with the combined annual production capacity of Alpine MDF and NPIL exceeding 500,000 cubic meters. Sumitomo Forestry anticipates additional synergistic benefits to accrue between Alpine MDF and NPIL.

P.T. KUTAI TIMBER INDONESIA (KTI) Established in 1970 and one of the oldest companies in Indonesia in which a foreign company has a part interest, KTI has since 1975 been engaged in the manufacture of plywood and wooden building materials. This company has been increasing the percentage of plantation-grown wood used in the manufacture of its value-added post-processed plywood, which it sells to environmentally conscious markets including the United States and Europe. Its fire doors, exported to England, are receiving especially high marks for quality. KTI received ISO14001 certification in 2001 for its environmental management program, which includes extensive use of plantation-grown trees as part of the company's commitment to operating as an environmentally conscious building materials enterprise.



P.T. RIMBA PARTIKEL INDONESIA (RPI) RPI, an affiliated company established in 1990 and located near Semarang, Indonesia, produces low-formaldehyde-emission particleboard that conforms to strict Japanese standards. This particleboard, manufactured from sawmill residue and the peeled cores of logs discarded by plywood factories, finds applications in furniture and speaker boxes. RPI sells its products locally and exports to such countries as China. Taking a proactive approach to the environment, the company promotes reforestation in cooperation with local residents in an effort to ensure a stable supply of raw materials.

P.T. AST INDONESIA (ASTI) Established in 1996, ASTI uses particleboard supplied by RPI in the manufacture of speaker boxes.

DOMESTIC BUSINESS

The timber and building materials distribution market in Japan has matured. Accordingly, Sumitomo Forestry has worked hard in recent years to reduce inventories, and we continue to undertake strict credit assessments of trading partners. More positively, in an effort to increase market share the Company has strengthened alliances with its principal trading partners and expanded existing sales routes. Moreover, amid ongoing industry restructuring we are actively seeking out new trading partners, cultivating new businesses and enhancing our competitive advantage generally. As a part of these efforts, Sumitomo Forestry during the year implemented changes to its INOS Group business system in an effort to more efficiently share know-how and offer support, in addition to revitalizing and differentiating the activities of individual member builders.



Indonesia-based
employees of KTI
subsidiary.

HOUSING AND
HOUSING-RELATED
BUSINESSES



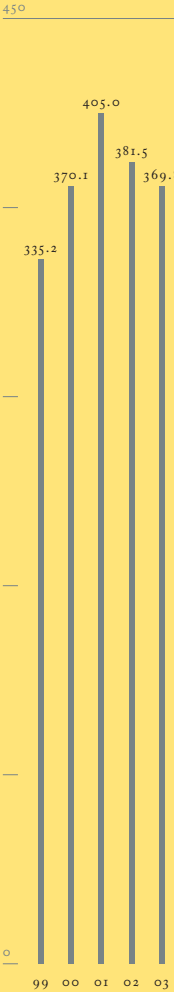
Prolonged recession and uninspiring short-term prospects dominated conditions in the domestic housing and housing-related markets during the year under review. In such an operating environment, the Company carried out activities in accordance with its customer-first management policy. With an eye toward bringing up the bottom line, we critically reviewed our materials procurement and production processes in order to cut costs, all the while implementing our firm resolve to reduce selling, general and administrative (SG&A) expenses. As a result, despite a 3.1% drop in sales and contract revenues to ¥369,885 million, the Housing and Housing-Related segment's operating profit nearly doubled to ¥9,920 million.

In the market for custom-built wooden homes incorporating traditional post-and-beam architectural methods, Sumitomo Forestry worked to bolster its sales capabilities and at the same time enhance its brand value by developing products that accurately address market needs. After reviewing our marketing structure at sales bases nationwide, we introduced a team manager system emphasizing on-the-job training oriented toward improving sales capabilities. In August, we launched the Rialt series, targeting the relatively buoyant first-time buyer market. This new series is based on a fresh design that ensures cost performance while maintaining quality standards. As a result, the Rialt series has rapidly become a mainstay product. We also introduced other products to meet the market's diverse needs. For example, in November we began marketing our new GODAI Waraku model, which generously displays the calming and harmonizing qualities of wood so central to the ambience of the traditional Japanese home. The GODAI One's Story II, launched in January, offers added security features and a 24-hour ventilation system. A quick market favorite, GODAI One's Story II is positioned to become a next-generation mainstay product.

In the market for custom-built wooden homes incorporating nontraditional construction principles, such as the two-by-four method, we focused on upgrading the development of customer-oriented products, the reduction of production costs including SG&A expenses, and enhancing management efficiency. At the same time, we worked to eliminate accumulated deficits through the increase and decrease of capital. Despite the impact of a difficult operating environment, Sumirin Two-By-Four Homes Co., Ltd., renamed Sumitomo Forestry Two-By-Four Homes Co., Ltd. in April 2003, managed to increase orders by specializing in luxurious Western-style houses.



SALES AND CONTRACT REVENUES
(Billions of yen)



The GODAI One's Story II, a major product of the Company, offers standard low-emissivity double-insulating glass for all ground-floor windows for added security.





The collective housing business offers a complete range of services including comprehensive site and building planning for enhanced asset value.

In prefabricated wood-frame houses, Sumirin Component House Co., Ltd. merged its production and marketing companies with Sumitomo Forestry Component House Industry Co., Ltd. in an effort to streamline operations and improve information-sharing and began operations under the name Sumitomo Forestry Component House Co., Ltd. In addition, we undertook a comprehensive review of production methods with the aim of improving our earnings structure.

Although orders for new detached homes throughout the Group dropped 1.3% to 10,538 units, and the number of housing completions fell 4.1% to 10,552 units compared with the previous fiscal year, Sumitomo Forestry achieved its annual target of 10,000 units despite the contraction in the housing market. In the collective housing business, we worked to increase orders by flexibly offering alternative solutions as required by specific projects, from reinforced concrete construction to two-by-four wood-frame methods. As well, we concentrated on developing innovative products, including day-care centers for the elderly and soundproof dormitories for students of music. As a result of these activities, new construction orders increased 14.1% to 1,227 units and the number of completed projects jumped 48.4% to 1,220 units compared with the previous fiscal year.

HOME REMODELING, HOME LANDSCAPING AND OTHER BUSINESSES

In contrast to the slump in new housing starts, the market for home remodeling continues to grow, with homeowners trending toward the refurbishment of existing dwellings and away from the purchase of new homes.

At Sumitomo Forestry Home Tech Co., Ltd., the Group's principal home remodeling company, we have positioned home remodeling as a future mainstay business. Accordingly, we have opened seven new locations, for a total of 41 stores, and are collaborating with the new housing construction business to enhance marketing activities. Sumitomo Forestry Home Tech is unique in that the majority of its employees are qualified architects. Backed by qualified specialists and offering comprehensive after-sales service—and reaping the harvest of trust sown over the years as a specialized builder of a large number of the existing post-and-beam detached houses in Japan—Sumitomo Forestry Home Tech is progressively increasing the volume of new orders. Interestingly, Sumitomo Forestry's specialized skills accumulated over the years are attracting market demand for our services in remodeling homes more than 70 years old.

In the tree-planting and home landscaping businesses, we have worked to develop new products and continue to actively market our flat-rate system garden-care services. Despite a drop in the number of custom-built houses completed and its impact on operating results, we have developed new techniques for landscaping on building rooftops buoyed by growing concerns regarding the “urban heat island” phenomenon.



OTHER

Elephant training center in the Way Kambas National Park in Indonesia.



SALES AND CONTRACT REVENUES (Billions of yen)

12

Sales and contract revenues in the Other segment for the year under review decreased 8.5% to ¥9,136 million, and operating profit fell 28.3% to ¥415 million.

The Sumitomo Forestry Group includes companies engaged in real estate brokering and in the production and marketing of compost for agricultural and gardening use, as well as a variety of service-oriented businesses including information system development, general insurance and leasing agency services.

Similar to our activities in the home remodeling business and for existing dwellings, we have positioned Sumitomo Forestry Home Service Co., Ltd. and the real estate brokerage business as a future mainstay business. Accordingly, we are accelerating our activities in this field and expanding our network by focusing on activities appropriate to specific regions and markets.

With regard to environmental preservation efforts, Sumitomo Forestry has continued the afforestation project commenced during the previous fiscal year as part of Japan's Official Development Assistance (ODA) program for the replanting of the Way Kambas National Park in Indonesia. In addition, we have been commissioned by Japan's Ministry of the Environment to commence preliminary studies of the Clean Development Mechanism (CDM) in an effort to achieve reduction targets for greenhouse gas emissions, as defined under the Kyoto Protocol.



As global environmental issues become increasingly important, Sumitomo Forestry is actively engaging in environmental businesses that take advantage of its forestry management experience accumulated over 300 years. As a responsible corporate citizen, we are promoting activities in harmony with the environment, focusing not only on economic gain but also environmental protection and contributing to a sustainable society. In every aspect of our business from timber and building materials through housing and afforestation, a Groupwide spirit of environmental conservation underpins our conduct and activities.

ENVIRONMENTAL MANAGEMENT SYSTEM

Sumitomo Forestry has actively pursued ISO 14001 certification, the international standard for environmental management systems, in an effort to promote efficient environmental management.

The Business Administration Division, the Business Headquarters, Collective Housing Headquarters, and other divisions acquired ISO 14001 certification in August 2001. Together with the Housing Headquarters and the Forestry & Environment Headquarters, all divisions and departments of Sumitomo Forestry in Japan have obtained certification. We are the first in our industry to attain certification in Japan for all housing functions from product design through construction.

Sumitomo Forestry is now working to acquire ISO 14001 certification for all its Group companies. In November 2002, four Group companies* acquired accreditation namely Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Component House Industry Co., Ltd., and Sumirin Component House Co., Ltd.

** Sumitomo Forestry Component House Industry Co., Ltd., and Sumirin Component House Co., Ltd. merged on January 1, 2003 to form Sumitomo Forestry Component House Co., Ltd.*



Regeneration project
in Way Kambas
National Park in
Indonesia.

SUSTAINABLE FORESTRY MANAGEMENT

Based on over 300 years of unbroken tradition, Sumitomo Forestry has practiced responsible management of woodlands with “Sustainable Forestry” as its underlying philosophy. We have nurtured stable forests through a deliberate process of afforestation. With the aim of preserving the forest ecosystem, Sumitomo Forestry harvests only certain sections at a time, instead of harvesting all the trees in a widespread area at once. Conscious that our forests remain the property of society at large and of sustained timber production over subsequent generations, we divide woodlands into areas of 0.05 to 0.1 hectares and implement a deliberate pattern of tree-planting, maintenance and harvesting. With this initiative, we strive to preserve the ecosystem of surrounding areas, prevent sediment damage and at the same time to increase the volume of carbon dioxide CO₂. As a result, over the 40,497 hectares of woodlands owned by Sumitomo Forestry, we have restricted the volume of CO₂ absorbed to between 250,000 and 280,000 tons per year, helping to alleviate the problems caused by global warming.

TIMBER AND BUILDING MATERIALS

The Sumitomo Forestry Group companies that produce building materials are responding to the heightened awareness of environmental issues by efficiently utilizing waste materials in the production process.

RPI, located near Semarang Indonesia, produces particleboard from plywood discarded by factories across Java. The company has developed a high-quality particleboard mixing sawmill residues and the peeled cores of logs under pressure with adhesive agents at high temperature. This particleboard has wide application in the manufacture of speaker boxes and furniture.

RPI effectively utilizes by-products, or materials discarded in the product manufacturing process. Dust called wood flour is produced as a by-product in the particle-board manufacturing process. In the past, RPI had disposed of most of this wood flour, but now efficiently uses the dust as fuel for a dryer boiler refitted for this purpose in March 2002. Consequently, in one year we will be able to cut the amount of diesel oil fuel by approximately 90%.

In Indonesia, wooden building material manufacturer KTI and RPI are striving to stabilize the supply of raw wood materials from afforestation, which have a low impact on the environment. Accordingly, we are proactively promoting afforestation in cooperation with local communities, including universities and regional and municipal governments. KTI is planting trees in Eastern Java in an aim to increase the ratio of plantation-grown wood to 70% by fiscal 2005. Since the end of 2000, we have jointly planted fast-growing *falcataria* trees with an Indonesian state-owned plantation company. We are also promoting reforestation with the cooperation of local governments, public institutions and local citizens, including the city of Probolinggo, where KTI has a plant, Universitas Surabaya and the Livestock Research Center. At our more than 20 joint tree plantations, we have planted 1,626,000 saplings of mainly the *falcata* variety, which mature in 5-7 years. Wood will be supplied to KTI from these tree plantations as early as 2006.

Clean Development
Mechanism (CDM)
survey.



At RPI, we have begun to cooperate with local residents to plant acacia mangium, gmelina arborea and other fast-growing trees. As with KTT's afforestation operations, RPI contributes to regional economic independence by bringing in cash revenues while ensuring a source of raw materials by planting trees.

Located in New Zealand, Nelson Pine Industries Limited (NPIL) produces medium density fiberboard (MDF). Generally, about 65-70% of the original tree is used in making wooden building materials. MDF, on the other hand, can be made from small-diameter trees and twisted tree branches. NPIL operates with zero emissions by drastically holding down the emission of waste and using nearly 100% radiata pine trees that are grown on carefully planted and nurtured tree plantations.

PROMOTING DOMESTICALLY PRODUCED WOOD The use of domestically produced wood is being promoted from the standpoint of preventing the decimation of forests. Sumitomo Forestry actively encourages the use of domestically produced wood as building materials for the development of housing products.

In the Housing Headquarters, Super Cypress, a glued laminated timber composed of cypress, popular among Japanese builders, is a primary building material for the GODAI One's Story II home model. Cypress wood excels in durability and resistance to rotting. Ideal for the foundations, posts and beams of homes, Super Cypress retains all the good qualities of this wood while offering greater precision and strength. Backed by the accumulated technologies of the Sumitomo Forestry Group, we have devel-

oped an innovative production plant able to effectively process cypress trees of relatively small diameter and thickness, enabling the efficient employment of materials that had previously been discarded, such as trees cut during thinning work.

Our original strong and ventilated Kizure panels are used as exterior wall substrates by arranging narrow slats of Japanese cedar in a lattice pattern. Compared with conventional plywood, Kizure panels offer stronger strength and better ventilation. Kizure panels are made from materials such as end scraps from sawmills and small diameter trees cut during thinning work, thereby contributing to the utilization of domestically produced wood. Sumitomo Forestry has boosted the percentage of domestic material in GODAI One's Story homes from 7% to 41% by using Super Cypress and Kizure panels. Sumitomo Forestry will continue to encourage the use of domestically grown trees and aim to stimulate the forestry sector in Japan. In this way, we hope to contribute to the preservation of the environment by fostering forest resources, increasing the CO₂ absorption volume of trees, cultivating water resources and preventing landslides.

INTERNATIONAL AFFORESTATION OPERATIONS Taking advantage of its accumulated expertise in afforestation, Sumitomo Forestry participates in CDM surveys and supports ODA reforestation projects overseas.

Sumitomo Forestry has been asked by the Ministry of the Environment to begin surveying the business feasibility of CO₂ removal using clean development mechanisms (CDM) in industrializing countries. The Company has

been conducting CDM surveys since 1999 in East Kalimantan in Indonesia. At our tree plantations in Eastern Java, we conduct economic feasibility studies and survey the potential CO₂-storing capacity of trees through the sustainable management of forests, while evaluating the effect of reforestation on ecosystems, society, the economy and local residents. As a result of our efforts, we were able to confirm the viability of CDM businesses. We reported the results of our research at an international conference, and based on our data, communicated the potential for afforestation activities to accelerate in various countries through CDM businesses.

Sumitomo Forestry is involved in the Way Kambas National Park Afforestation Project, which is attracting attention as Japan's first Official Development Assistance (ODA) grant for an afforestation project. The project calls for planting 55,000 trees on 360 hectares of parkland that was the site of a forest fire. At the same time, an initiative was launched in May 2001 to reestablish facilities for managing seedlings, tree planting and fire prevention, and to plant trees along a fire prevention buffer.

A MEMBER OF LOCAL COMMUNITIES

In its corporate aim to help create a sustainable society, Sumitomo Forestry believes it is important for business activities to be in harmony with local communities. The Company is working towards the creation of a sustainable society in its capacity as a corporate citizen.

Launched by Sumitomo Forestry in 1991, the Tropical Rain Forest Regeneration Project in Sebulu, East

Kalimantan (Indonesia) marked its 12th anniversary in fiscal 2002. The project receives assistance from the Indonesian Ministry of Forestry and the Japanese Forestry Agency and guidance from Tokyo University's agricultural department of afforestation research. Started in cooperation with KTI, the project has planted trees of mainly the dipterocarp family on a test plot of 3,000 hectares of land that had been illegally deforested and subjected to slash and burn farming and mountain fires. In fiscal 2002, we planted trees on 48 hectares of land, bringing the total plantation size to approximately 503 hectares. Striving to improve awareness of responsible farming in the region, the project aims to create a framework where local residents can live without excessive slash and burn farming.

KTI celebrated the 30th anniversary of its foundation in 2000 by launching the KTI Educational Foundation, which aims first and foremost to increase the school attendance of children who will become the future of Indonesia someday. There are approximately 6 million children in Indonesia that are unable to go to elementary school due to poverty. The KTI Educational Foundation encourages school attendance by giving scholarships to children of poor families. In fiscal 2002, the KTI Educational Foundation provided support to children and contributed KTI-made plywood to help in the repair of elementary school buildings and desks. In February 2002, the KTI Educational Foundation deepened its connection to local communities by providing assistance in the form of food and clothing to families displaced by floodwaters that struck East Java, and also by supplying plywood for repair work.



In 2001 and 2002, the KTI Educational Foundation provided 60 and 70 scholarships respectively, to elementary school children living in Probolinggo and Sebulu, adjoining the Company's plants.



Sumitomo Forestry has been able to survive and grow for over 300 years by relying on its core strengths. First, we put **customer satisfaction** above all else, and this philosophy has helped us become No. 1 in many ways. We also observe the highest **ethical standards**, realizing that “sustainable forestry” has been and will continue to be the key to our longevity. These ideals are vigorously pursued by the employees of Sumitomo Forestry, whose **astounding qualifications** ensure success.

see our core strengths»



what ensures our growth?

KTI is cooperating with state-run plantations in the planting of falcata forests. These trees will mature in five to seven years.

Sumitomo Forestry has developed a robot for inspecting foundations and plumbing beneath the floor, providing enhanced peace of mind.

in many ways, No. 1



1.

Customer Satisfaction

Sumitomo Forestry is No. 1 in more ways than one. For instance, we are Japan's No. 1 importer of timber products. The Company is also the No. 1 seller of custom-built wooden homes in Japan. Our subsidiary Nelson Pine Industries Limited, in New Zealand, boasts the world's No. 1 production capacity for medium-density fiberboard (MDF) at a single factory. And most important of all, we are the No. 1 choice of consumers. Sumitomo Forestry's single-unit housing division was **named No. 1 for after-sales service in a customer satisfaction survey of more than 10,000 consumers** conducted in January and February 2003 by Nikkei Business Publications, Inc. This marks the fourth time—and the second consecutive year—that we have been honored with this prestigious award, and we are pleased that our efforts to enhance customer satisfaction are being recognized in this way. Reflecting the Company's solid customer-first management philosophy of providing pleasant, worry-free homes, Sumitomo Forestry boasts the industry's leading after-sales service structure. This structure consists of experienced maintenance technicians on call 24 hours each day of the year, a customer call center, and after-sales service specialist teams based in more than 50 branch offices around Japan.

2.

Ethical Standards

Established in 1691 as a division of the predecessor to the Sumitomo Group and charged with overseeing the production and supply of support beams used in mining operations and of charcoal for smelting metals, Sumitomo Forestry for more than 300 years has maintained a clear focus on wood materials while steadily expanding its operational scope. Since our beginning, **sustainable forestry has been at the heart of our operations**, and we intend to continue protecting forests for the next three centuries, as well. » Remaining true to the spirit of the Company founder, whose name lives on in the Sumitomo Group of companies, Sumitomo Forestry places the utmost emphasis on building trust-based relationships with all stakeholders. Accordingly, we prioritize the achievement of solid, sustainable performance results over the reckless pursuit of profits in our business operations. This spirit, undergirding the activities of all the Company's business segments, continues to guide our operations and fuel our resolve to contribute positively to society.

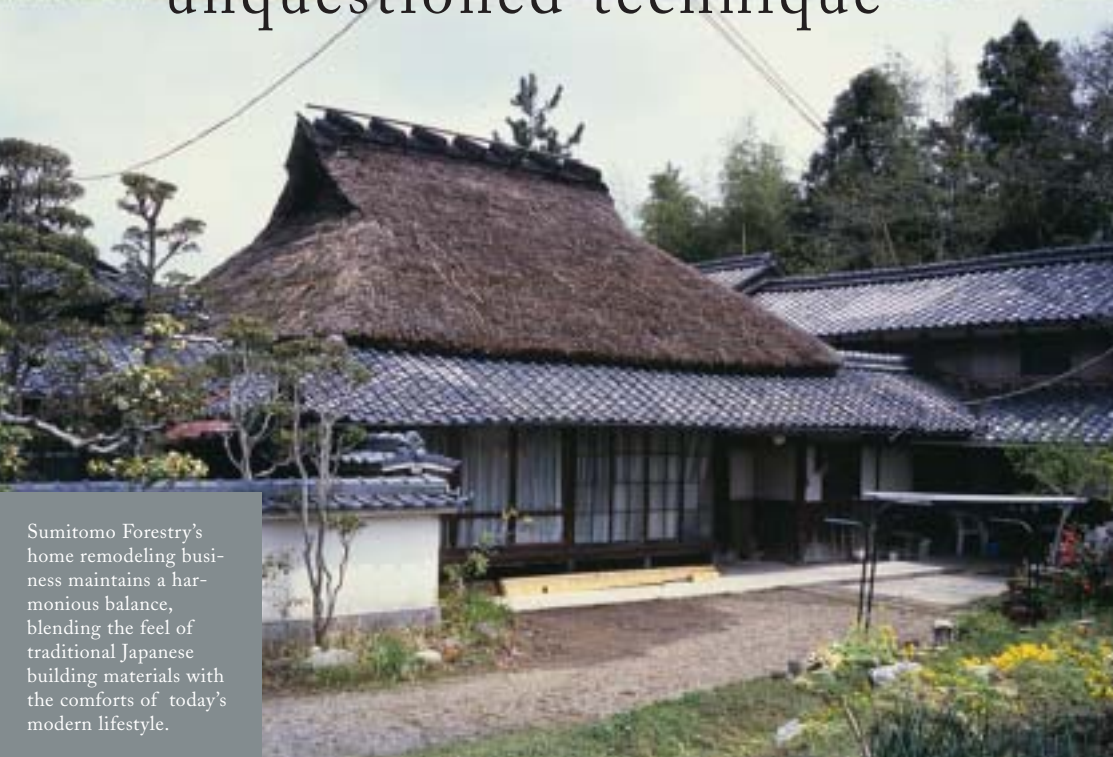
Masatomo Sumitomo (1585-1652) is regarded as the spiritual founder of the Sumitomo Group. His teachings live on in the Sumitomo spirit of today.

more than **300** years





unquestioned technique



Sumitomo Forestry's home remodeling business maintains a harmonious balance, blending the feel of traditional Japanese building materials with the comforts of today's modern lifestyle.

3.

Astounding Qualifications

Of the 216 marketing and project management staff at Sumitomo Forestry Home Tech Co., Ltd., which focuses on the Home Remodeling business, 208, or an astounding 96.3%, are nationally certified and registered architects with excellent engineering skills (as of May 1, 2003). At Sumitomo Forestry, which employs the traditional Japanese post-and-beam construction method in building custom-made homes, more than half of the 3,364 employees, or 1,782 people, associated with the Housing and Housing-Related segment have professional architect qualifications (as of June 30, 2003). » Sumitomo Forestry aims to elevate the Japanese standard of living comfort. As a first step toward achieving this lofty goal, we offer customers satisfying homes and related services that are backed by our time-tested technological capabilities.

P.T. Kutai Timber Indonesia (KTI), a manufacturer of plywood in Indonesia has established the KTI Educational Foundation. This Foundation distributes scholarships to elementary school children from poor families.

A group of young children, likely elementary school students, are shown in their school uniforms. In the foreground, a young boy with a serious expression looks directly at the camera. He is wearing a white long-sleeved shirt with a small logo on the left chest and a yellow headband. Behind him, several girls are smiling. They are wearing white hijabs with lace trim and white shirts. The background is slightly blurred, showing an outdoor setting with other people and structures.

and more, for sustainable growth

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)

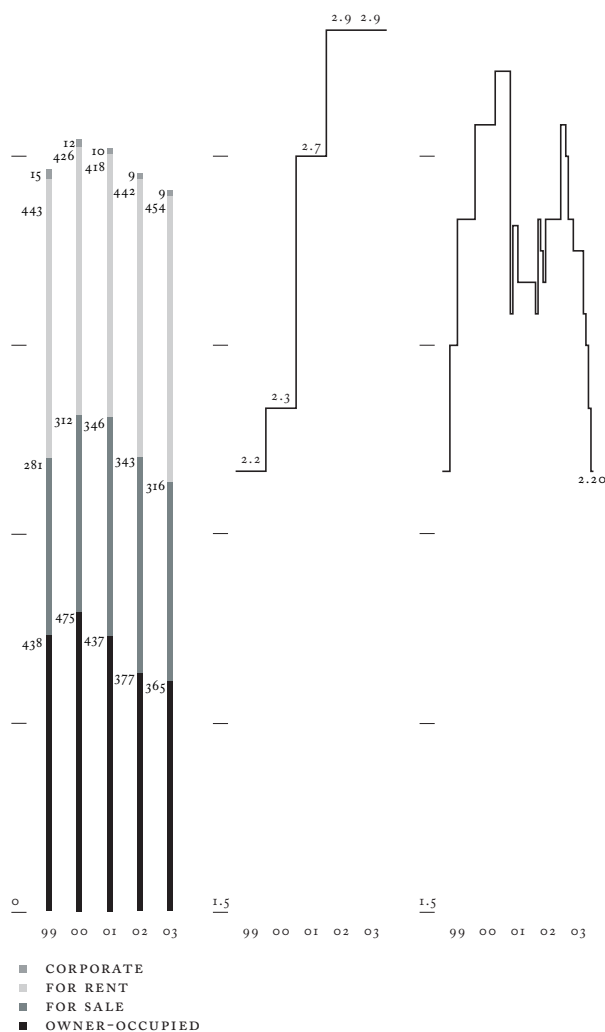
1,500

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

3.0

HOUSING LOAN
CORPORATION
STANDARD
INTEREST RATE
(%)

3.0



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).

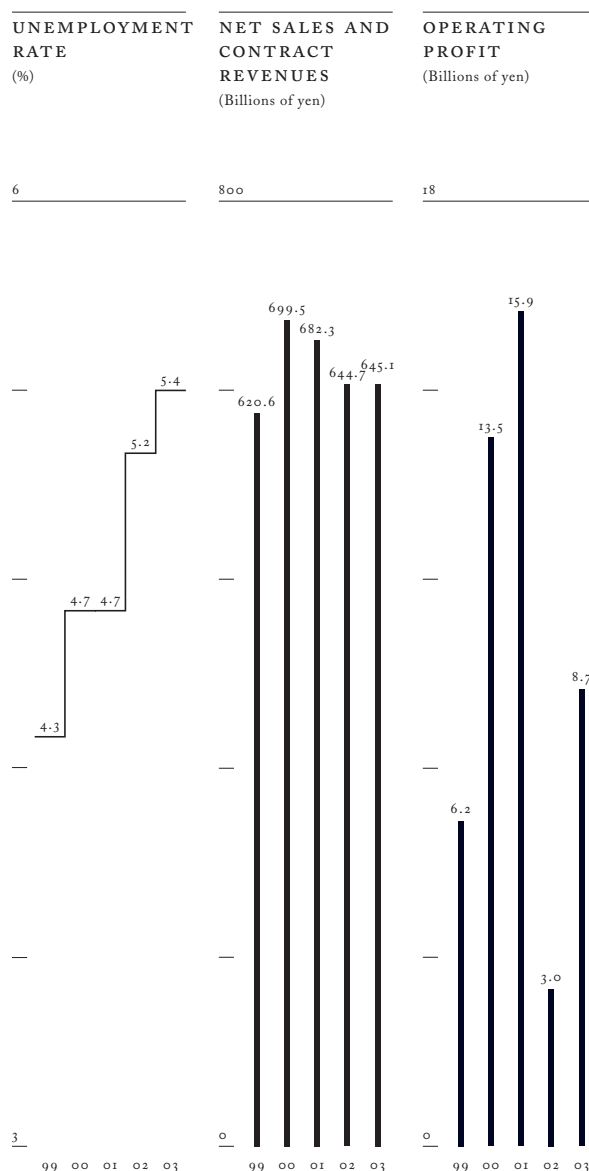
OVERVIEW

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).



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).

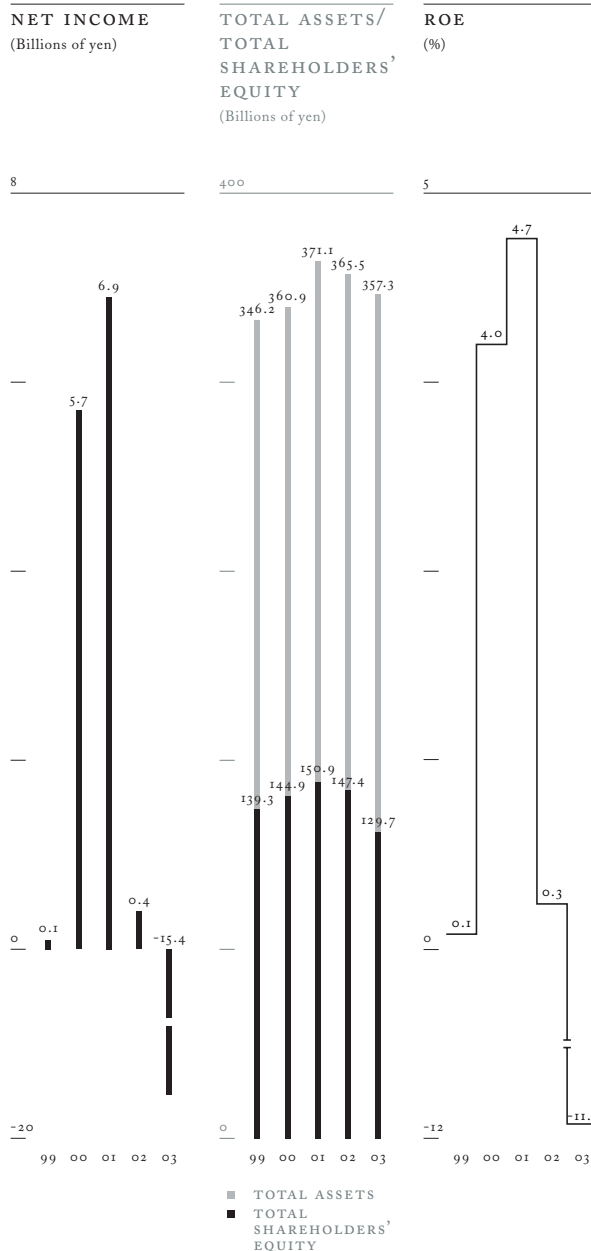
NET INCOME

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.



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

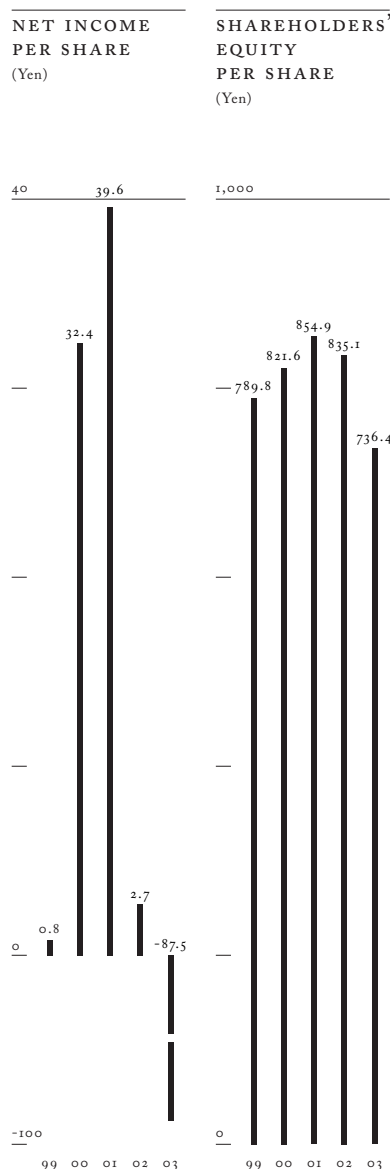
Total current assets fell 2.4% to ¥245.0 billion (US\$2,042.1 million), mainly owing to a drop in cash and time deposits and a lower level of notes and accounts receivable. Net property, plant and equipment also fell significantly, to ¥63.9 billion from ¥72.7 billion as of the previous fiscal year-end.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



Consolidated Balance Sheets

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

ASSETS	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 4)
	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		THOUSANDS OF U.S. DOLLARS (NOTE 4)
	2003	2002	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)
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.

Notes to Consolidated Financial Statements

SUMITOMO FORESTRY CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and 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.

II. 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 par 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 inter-

est 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.

YEAR ENDED MARCH 31, 2003	MILLIONS OF YEN				ELIMINATION AND/OR CORPORATE CONSOLIDATED	
	TIMBER AND BUILDING MATERIALS	HOUSING	OTHER	TOTAL		
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

YEAR ENDED MARCH 31, 2002	MILLIONS OF YEN					
	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
Identifiable assets, depreciation and capital investment:						
Identifiable 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

YEAR ENDED MARCH 31, 2003	THOUSANDS OF U.S. DOLLARS					
	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
Identifiable assets, depreciation and capital investment:						
Identifiable 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.



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.

Overseas Network

OVERSEAS OFFICES AND SUBSIDIARIES

1. SEATTLE OFFICE/
SUMITOMO FORESTRY
SEATTLE, INC.
1000 Second Avenue, Suite
1220, Seattle, Washington
98104, U.S.A.
Tel : 1-206-623-8840
Fax: 1-206-345-0391
E-mail: sfc@hitmark.com
2. VANCOUVER OFFICE
460, 1140 West Pender Street,
Vancouver, British Columbia,
Canada, V6E 4G1
Tel : 1-604-681-8184
Fax: 1-604-681-6568
E-mail: sfc@sfcvcr.com
3. AMSTERDAM OFFICE
Rivierstaete Building, 3rd Floor
No. 22, Amsteldijk 166
1079LH, Amsterdam,
The Netherlands
Tel : 31-20-646-4140
Fax: 31-20-646-5372
E-mail: sfc3@smtforams.nl
4. JAKARTA OFFICE
Summitmas II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel : 62-21-5200368
Fax: 62-21-5202069
E-mail: sfcjkt@cbn.net.id
5. SINGAPORE OFFICE/
SUMITOMO FORESTRY
(SINGAPORE) LTD.
6 Raffles Quay #14-04/05,
John Hancock Tower.
Singapore 048580
Tel : 65-6435-0150
Fax: 65-6435-0151
E-mail: adm@sfsapore.com.sg
6. KHABAROVSK OFFICE
"PARUS HOTEL" 208,
5, Shevchenko Street,
Khabarovsk 680000, Russia
Tel : 7-4212-32-68-58
Fax: 7-4212-32-83-61
E-mail: sfc@interglobal-one.ru

7. DALIAN OFFICE
Senmao Building, 13th Floor,
147 Zhongshan Road, Xigang
District Dalian, 116011, PRC
Tel : 86-411-367-8060/8062
Fax: 86-411-367-8061
E-mail: sfcld@online.ln.cn
8. TAWAU OFFICE
P.O. Box 946, 91008, Tawau,
Sabah, Malaysia
Tel : 60-89-772979
Fax: 60-89-761060
9. KOTA KINABALU OFFICE
Lot 1-5-E4, 5th Floor, Centre
Point Sabah, No. 1, Jalan
Centre Point, 88000, Kota
Kinabalu, Sabah, Malaysia
Tel : 60-88-242031
Fax: 60-88-268031
E-mail: sfcctu@tm.net.my
10. MIRI OFFICE
P.O. Box. 493, 98007, Lot 231
No.15, Hokkien Road, Miri,
Sarawak, Malaysia
Tel : 60-85-413459
Fax: 60-85-413598
E-mail: sfcmiri@tm.net.my
11. SIBU OFFICE
P.O. Box. 1563, 96008, No. 52,
2nd Floor, Tanahmas Building,
Kg. Nyabor, Sibu, Sarawak,
Malaysia
Tel : 60-84-312777
Fax: 60-84-317635
12. AUCKLAND OFFICE/
SUMITOMO FORESTRY NZ
LIMITED
P.O. Box. 91219, Auckland
Mail Centre, Level 11, Westpac
Tower, 120 Albert Street,
Auckland, New Zealand
Tel : 64-9-309-0012
Fax: 64-9-309-0014
E-mail: sfnz@xtra.co.nz/
sumitomo@xtra.co.nz

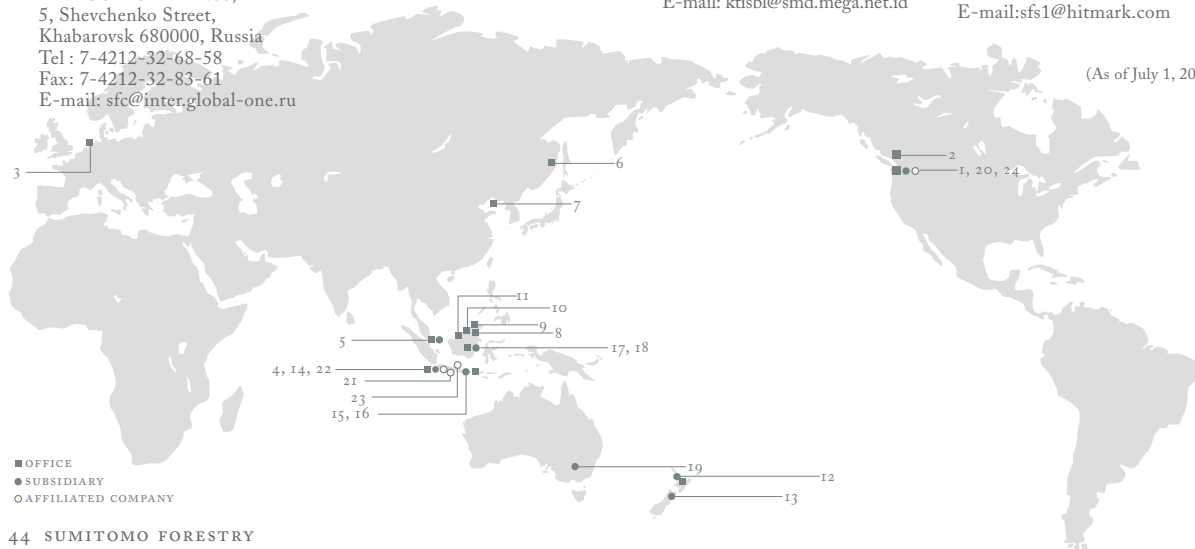
13. NELSON PINE INDUSTRIES
LIMITED
P.O. Box. 3049, Lower Queen
Street, Richmond, Nelson, New
Zealand
Tel : 64-3543-8800
Fax: 64-3543-8890
E-mail: sfc@nelsonpine.co.nz
14. P.T. KUTAI TIMBER
INDONESIA
P.O. Box. 6913/JKSST,
Summitmas II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel : 62-21-2521260
Fax: 62-21-5200313
E-mail: ga-ikt@kti.co.id
15. PLYWOOD FACTORY
PROBOLINGGO
P.O. Box. 101 Probolinggo,
JL. Tanjung Tembaga Baru,
Probolinggo, Jawa Timur,
Indonesia
Tel : 62-335-42-2412
Fax: 62-335-42-1669
E-mail: pr@kti.co.id
16. SURABAYA OFFICE
P.O. Box. 306, Surabaya,
JL. Kusuma Bangsa No. 19,
Surabaya, Jawa Timur,
Indonesia
Tel : 62-31-5343835
Fax: 62-31-5343838
E-mail: ktisby@kti.co.id
17. SAMARINDA OFFICE
JL. Basuki Rahmat II No. 02
Samarinda 75121, Kelurahan
Timur, Indonesia
Tel : 62-541-741966/737926
Fax: 62-541-741967
18. SEBULU LABORATORY
Sebul-Kalimantan Timur,
Kalimantan Timur, Indonesia
Tel : 62-541-737436
Fax: 62-541-205516
E-mail: ktisbl@smd.mega.net.id

19. ALPINE MDF INDUSTRIES
PTY LTD.
Lot-1 Crosher Lane,
Wangaratta VIC 3677,
Australia
20. PACIFIC WOOD PRODUCTS
LLC
16310 NE 85th St. Suite
100, Redmond, Washington
98052, U.S.A.
Tel : 010(1)425-885-1777
Fax: 010(1)425-885-0057
E-mail: sfs1@hitmark.com

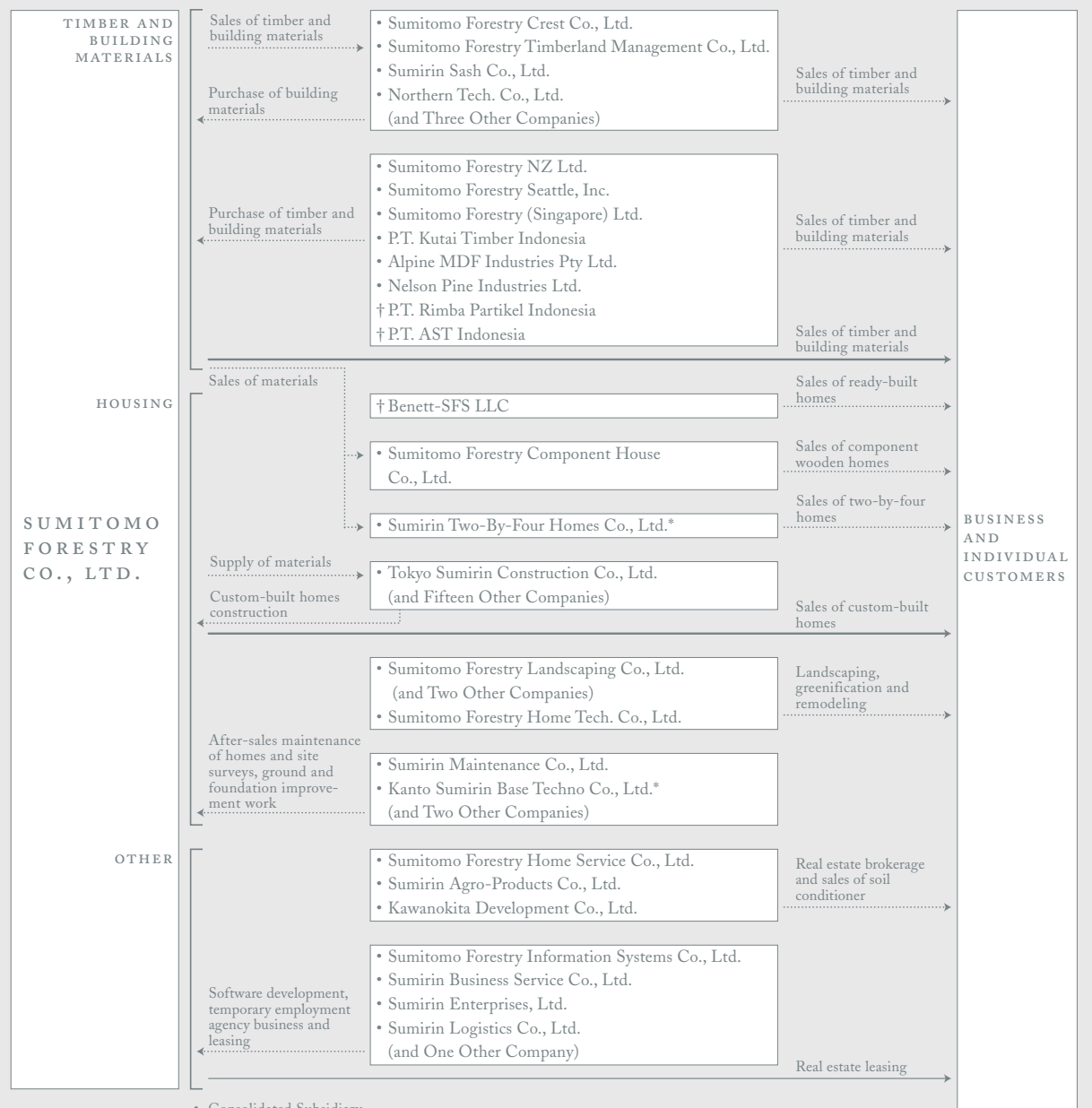
AFFILIATED COMPANIES

21. P.T. RIMBA PARTIKEL
INDONESIA
P.O.Box. 127 KENDAL
Desa. Mororejo, Kaliwungu,
Kendal, Jawa Tengah, Indonesia
Tel : 62-24-8662990
Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id
22. JAKARTA OFFICE
Gedung Idola Tunggal Slipi,
JL. Letjen S.Parmar Kav.67,
Jakarta 11410, Indonesia
Tel : 62-21-5321637
Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id
23. P.T. AST INDONESIA
KITW Technopark Blok A-01,
JL. Raya Semarang-Kendal km.
1z, Semarang, Indonesia
Tel : 62-24-8664800
Fax: 62-24-8664801/8664452
24. BENNETT-SFS LLC
c/o 1000 Second Avenue,
Suite 1220,
Seattle, Washington 98104,
U.S.A.
Tel : 010(1)206-623-8840
Fax: 010(1)206-345-0391
E-mail: sfs1@hitmark.com

(As of July 1, 2003)



Subsidiaries and Affiliates



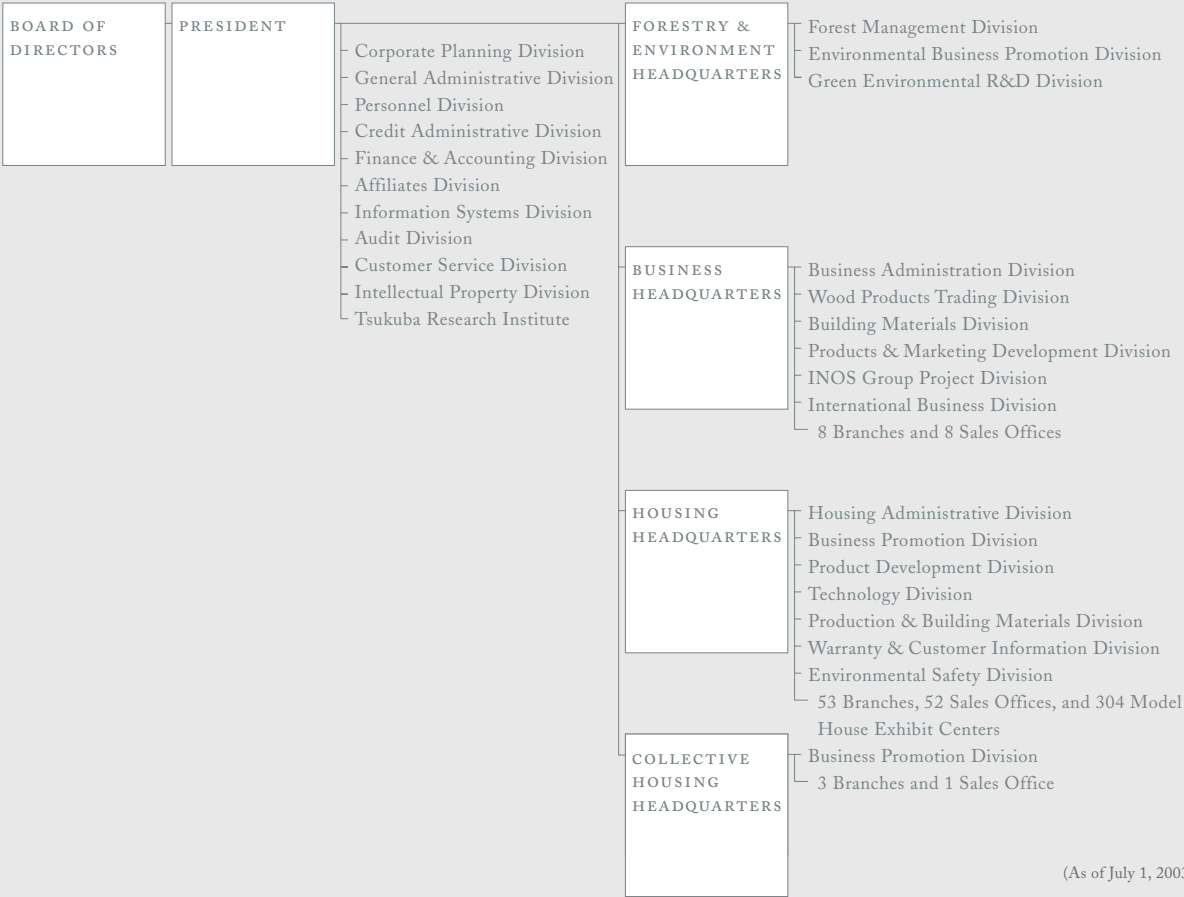
• Consolidated Subsidiary

† Equity-method Affiliate

* Sumirin Two-By-Four Homes Co., Ltd. changed its company name to Sumitomo Forestry Two-By-Four Homes Co., Ltd. on April 1, 2003.

(As of March 31, 2003)

Organization Chart



Corporate Data

FOUNDED 1691	HEAD OFFICE (TOKYO) Shinjuku Green Tower Building, 14-1, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-8360, Japan	HEAD OFFICE (OSAKA) Sumitomo Building No. 2, 7-28, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan
INCORPORATED 1948	<ul style="list-style-type: none"> • <i>Wood Products Division</i> Tel : 81-3-5322-6700 Fax: 81-3-5322-6800 • <i>International Business Division</i> Tel : 81-3-5322-6680 Fax: 81-3-5322-6780 • <i>General Administrative Division</i> Tel : 81-3-5322-6666 Fax: 81-3-5322-6766 	Tel: 81-6-6220-8607 Fax: 81-6-6220-8612
STOCK EXCHANGE LISTINGS Tokyo, Osaka	URL: http://www.sfc.co.jp/	NUMBER OF SHAREHOLDERS 12,776
PAID-IN CAPITAL ¥27,672 million		(As of March 31, 2003)

Board of Directors, Auditors and Executive Officers



(From right to left)
Ryu Yano,
Yukihiro Goto,
Kanji Sugano,
Akihiro Ueda

DIRECTORS AND AUDITORS

DIRECTORS

Ryu Yano*
Yukihiro Goto*
Kanji Sugano*
Akihiro Ueda*
Nobuo Suzuki
Shuji Kitamura
Kazuo Kai
(*Representative Director)

STATUTORY AUDITORS

Yoshihiro Kado
Junji Ikai
Joji Itoh
Hiroshi Miki
Satohiko Sasaki

EXECUTIVE OFFICERS

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Ryu Yano

VICE PRESIDENTS AND EXECUTIVE OFFICERS

Yukihiro Goto
Kanji Sugano

SENIOR EXECUTIVE OFFICER

Akihiro Ueda

MANAGING EXECUTIVE OFFICERS

Nobuo Suzuki
Shuji Kitamura
Kazuo Kai
Shoichi Takahashi

EXECUTIVE OFFICERS

Masahiro Kawachi
Hideo Kanai
Masayuki Kato
Kazushige Yahagi
Ryuichi Takayama
Shoichi Iwasa
Shinichi Miyake
Hideki Nose
Toshio Kohigashi

(As of June 27, 2003)

Head Office (Tokyo)

Shinjuku Green Tower Building,
14-1, Nishi-Shinjuku 6-chome,
Shinjuku-ku, Tokyo 160-8360, Japan
Tel: 81-3-5322-6666
Fax: 81-3-5322-6766

Head Office (Osaka)

Sumitomo Building No. 2,
7-28, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan
Tel: 81-6-6220-8600
Fax: 81-6-6220-8612

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