

Ensuring Forests Remain a Resource for Generations to Come

ANNUAL REPORT 2001

Year ended March 31, 2001

FINANCIAL HIGHLIGHTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2001	2000	1999	1998	1997	2001
Net sales and contract revenues	¥682,375	¥699,594	¥620,615	¥713,728	¥817,949	\$5,503,024
Operating profit	15,999	13,549	6,210	5,805	23,637	129,024
Net income	6,994	5,708	134	2,145	13,158	56,403
Total assets	371,102	360,935	346,293	341,325	430,217	2,992,758
Total shareholders' equity	150,979	144,914	139,301	140,357	139,353	1,217,572
ROE (%)	4.7	4.0	0.1	1.5	9.8	—
ROA (%)	1.9	1.6	0.0	0.6	3.2	—
				Yen		U.S. dollars
Net income per share	¥39.64	¥32.36	¥ 0.76	¥12.17	¥74.60	\$0.31
Cash dividends per share	10.00	10.00	10.00	10.00	12.00	0.08

Note: Yen amounts have been translated for convenience only, at ¥124=US\$1.

CONTENTS

Profile	1
A Message from the President	2
Review of Operations	5
Research and Development	12
Corporate Citizenship	13
Environmental Stewardship	14
Corporate History	16
Financial Section	18
Overseas Network	36
Subsidiaries and Affiliates	37
Organization Chart/Corporate Data	38
Board of Directors	39

Cover: Company forest in Wakayama

Since its establishment

in 1691, Sumitomo Forestry Co., Ltd. has been engaged in a variety of business fields focused on wood and wood products. Our mission is to give people more opportunities to benefit from the natural aspects of wood, a material whose inherent beauty, solidity and familiarity provide a sense of well-being and security wherever it is used. Sumitomo Forestry contributes to the enhancement of people's lives by providing a broad array of product choices that make the most of the unique qualities of wood.

Our mission is to expand the possibilities of wood.



*Review of Previous
Fiscal Year*

In fiscal 2001, ended March 31, 2001, the market for wood and wood products contracted, as evidenced by an 8.0% decline in new housing starts to 437,000 units in the owner-occupied category, our core business. Amid a softening of performance in the timber and building materials segment following this decline, Sumitomo Forestry focused on promoting our business in accordance with the strategies outlined below. Despite a 2.5% decline in net sales and contract revenues to ¥682.3 billion, due partly to a change in accounting practices, we were able to raise net income 22.5% to ¥6.9 billion.

In the timber and building materials segment, Sumitomo Forestry maintained its procurement structure, which is tied to direct demand, while strengthening relations with key clients and concentrating efforts on the formation of a new business model to act as the foundation for a housing materials network. Additionally, our strong position in the domestic market was assured with the withdrawal of several competitors. While working to develop new procurement sources by aggressively expanding our overseas network, we also initiated construction of a laminated veneer lumber production line in New Zealand with approximately ¥5.3 billion in investment with the goal of landed operations in January 2002.

In the housing market, in addition to providing tailor-made services and advancing product development in a way that accentuates the merits of wood, we improved employee education and promoted regionally based business development. As a result, new products re-

leased in February 2001 gained considerable favor, resulting in the second-highest number of units ever ordered in a fiscal year. Measures to bolster our after-service structure centered on Customer Service Centers established in fiscal 2000. Located in each branch, they were well received and enabled Sumitomo Forestry to gain first place in the Comprehensive Customer Satisfaction category in a consumer survey performed by *Nikkei Business* magazine pertaining to after-sales.

Company forest in
Kyushu (Spring)



To reinforce our corporate structure and promote greater fiscal soundness, we performed a lump-sum write-off of the balance of retirement allowance reserves from past terms following the introduction of new accounting standards for retirement benefits. Also, amid the transition toward fully introducing mark-to-market methods, an extraordinary loss of ¥2.3 billion was recorded from a substantial decline in market price as well as from such valuation losses as marketable real estate judged to have no prospects. We also aggressively pursued repayment of debt.

Sumitomo Forestry made vigorous efforts in environmental preservation by making ample use of its accumulated expertise as one of Japan's premier forestry holding companies. We also focused on bolstering greenification activities through such means as applying new methods for the mass-transplanting of cloned seedlings and achieving success in reproducing older strains of cherry trees.

Sumitomo Forestry serves society by providing customers with a living environment that brings them peace and comfort.



*Outlook for the Current
Fiscal Year*

In the current fiscal year, the market environment is projected to grow increasingly fierce as a heightened sense of impending economic slowdown is expected to result in a decrease in domestic housing starts to roughly 1,150,000 units. Despite this, we will press forward with current plans in the timber and building materials segment, endeavoring to maintain our position as the industry leader in the domestic markets. Concurrently, we will raise profitability through mergers with four domestic building materials manufacturers, while raising the competitiveness and efficiency of our own building materials business. Overseas, we will reinforce our timber and building materials business by vigorously opening new operations centered on the Pacific Rim region, and raise the proportion of overseas business to temporarily shift away from the sluggish domestic market. In the housing segment, we will continue to apply our exacting standards as a wood products specialist and our philosophy of providing tailor-made services as we carry out manufacturing reorganization using new forms of information technology to expand orders and raise business efficiency. We will also work to expand business by concentrating resources on the fields of single-unit housing construction, home remodeling, real-estate brokerage and apartment construction.

Ryu Yano
President