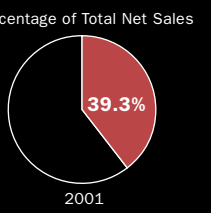
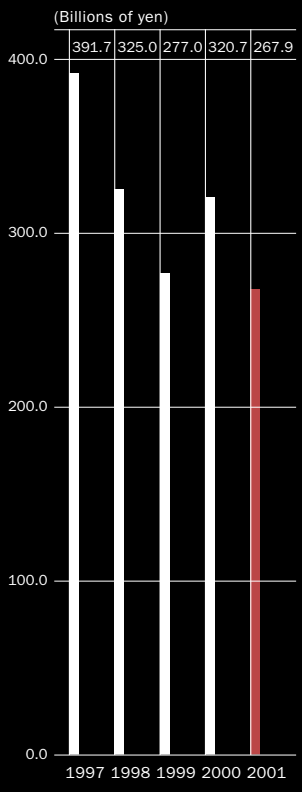
Sumitomo Forestry's operations are divided into three segments: Timber and Building Materials, Housing and Other. The Timber and Building Materials Segment works to broadly expand our trade in timber and building materials and our production of wood construction materials, chiefly in the Pacific Rim, including Japan. Specializing in wooden home construction, the Housing Segment focuses chiefly on single-unit house construction, but handles apartment construction, home remodeling, and greenification activities as well, and boasts a top share in the domestic wooden home market. The Other Segment includes not only the production of agricultural and gardening compost and involvement in the greenification business and in real estate brokerage, but also a wide range of businesses that serve Group companies, including data system development and non-life insurance. The first two segments make up the vast majority of sales of the Sumitomo Forestry Group.

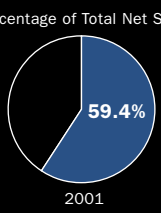
TIMBER AND BUILDING MATERIALS



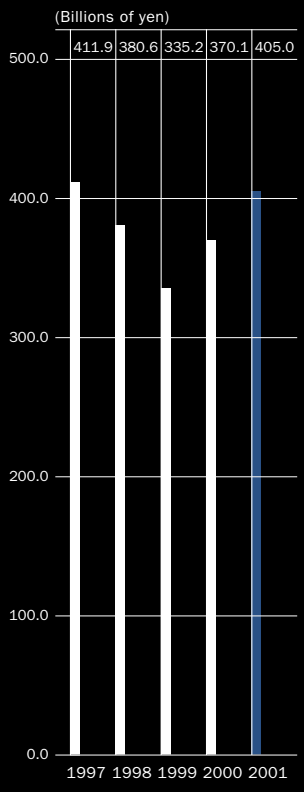
Net Sales



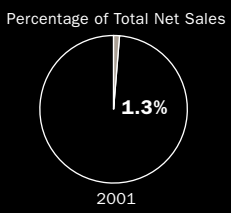
HOUSING



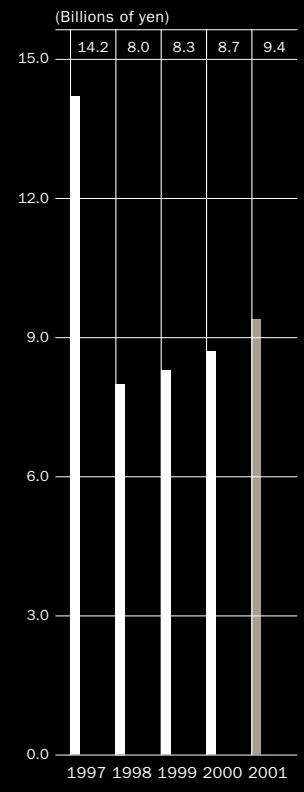
Net Sales



OTHER



Net Sales



木材・建材事業

Sales and contract revenues of the Timber and Building Materials Segment in fiscal 2001 declined 16.5% to ¥267.9 billion compared with the previous fiscal year. Operating profit before allocating headquarter expenses dropped 65.3% to ¥5.1 billion, owing to a change in accounting practices for recorded sales in timber and building materials. Using previous accounting standards, sales would have risen ¥70.2 billion to ¥338.1 billion, and operating profit would have increased ¥7.1 billion to ¥12.2 billion.

In this segment, the trend in losses displayed a high correlation with the number of new housing starts because of the prolific use of housing materials. In fiscal 2001, the timber and building materials market showed signs of a mild softening from a 1.1% decline in new housing starts to 1,213,000 units.

Timber and Building Materials—Distribution

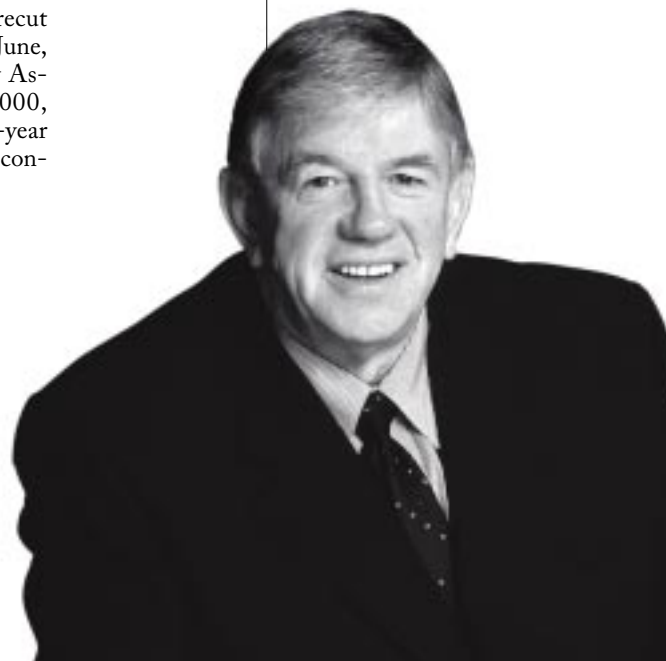
In timber and building materials distribution, while working to forge closer ties with major customers, including sawmills, plywood mills, building material manufactures, wholesalers and large-scale retailers, Sumitomo Forestry is considering environmental preservation measures to sustain development in key supply countries and focusing efforts on such varying elements as the supply and demand environment and exchange levels. Additional key aims will include discovering new procurement sources in response to the wide range of demand in Japan, steadily increasing trade levels in such fields as raw lumber, sawn timber and lumber building materials, and establishing a leading position in the industry. Sumitomo Forestry has been able to ensure more stable profitability by avoiding inventories, which are easily influenced by price fluctuations, and instead carrying out procurement based on real demand.

Sumitomo Forestry was active in Precut Forum 21, organized by leading precut mills and processing machinery manufactures nationwide to address the rising rate of precut construction materials used in housing construction, and worked to improve the quality of precut components. At Precut Forum 21 in June, in response to the Housing Quality Assurance Law enacted in April 2000, Sumitomo Forestry launched the 10-year Defect Warranty System for lumber con-

Sumitomo Forestry has placed staff overseas in the Pacific Rim and Europe to select and import lumber building materials and sawing products.

Murray G. Sturgeon

Murray G. Sturgeon
Nelson Pine Industries Ltd.,
Managing Director



Complex building materials are produced using the MDF and LVL processes of NPIL and KTI, respectively.

Inside the NPIL mill

struction components. In December, we began marketing components under the name PF-WOOD that meet the Defect Warranty System as high-quality precut construction lumber and measure up to internal Company standards. Sumitomo Forestry is also developing high-temperature drying systems for cedar, which was formerly considered difficult to dry, in order to promote the use of Japanese cedar. Finally, we are supporting the mutual introduction of Precut Forum 21 members, and working to open up new trade routes.

INOS Business

The INOS business aims to promote the efficient supply of high-quality construction materials by supporting the modernization of small and medium-sized housing companies of the INOS Group through the supply of technology and expertise accumulated in the housing business. In October 2000, the Company worked to expand business through such initiatives as introducing highly airtight, insulated products that meet next-generation energy conservation standards. Consequently, the number of member housing companies at fiscal year-end totaled 469, and the number of homes constructed rose 126 to 2,153 units, resulting in a ¥600 million increase in sales to ¥10.5 billion.

Sumitomo Forestry Crest (Kashima Plant) produces building materials using supplies procured from such overseas subsidiaries as NPIL.

Building Material Production and Other Businesses

Sumitomo Forestry merged four domestic building materials subsidiaries to launch a new subsidiary, Sumitomo Forestry Crest Co., Ltd. in April 2001, in order to bolster competitiveness in the Group's building material production business. The new company will strengthen product development and marketing capabilities and improve materials provision efficiency for Sumitomo Forestry's housing business, while aggressively reinforcing marketing to outside customers. Sumitomo Forestry Crest's business scale will be the largest of all Group companies, equaling the performance of all four founding companies as of March 31, 2001, with sales of ¥27.4 billion and net income of ¥362 million. The company operates six plants and has a staff of 550 employees.

To realize improved quality at domestic and overseas building material production subsidiaries, Sumitomo Forestry obtained ISO 9000 certification for three plants in the fiscal year under review, bringing the total for both domestic and overseas locations to eight.

光吉敏郎

Toshiro Mitsuyoshi
Overseas Business Division

NPIL produces MDF made from afforested radiata pine. Plans call for production of LVL by January 2002.

Overseas Business

In overseas business, Sumitomo Forestry not only procures lumber and building materials from lumber-exporting countries for marketing in Japan, but also aggressively develops the building materials production business. This business had its start in the plywood production business of P.T. Kutai Timber Indonesia, which started out in construction in Indonesia in 1973. In the future, Sumitomo Forestry aims to pursue mainly the building materials production business in the Pacific Rim, with vigorous marketing in countries other than Japan. One important characteristic of Sumitomo Forestry's overseas business style is its consideration for the global environment, as demonstrated by its continued support of the Tropical Rainforest Regeneration Project, and its emphasis on supplying markets using trees from plantations. There are currently four overseas manufacturing bases.

Overseas Manufacturing Bases

• *P.T. Kutai Timber Indonesia (KTI)*
Established in 1970, the company began plywood production in 1974, and is considered a pioneer in the plywood production business in Indonesia as a result of tie-ups with foreign capital. Currently, Sumitomo Forestry handles KTI high-quality plywood and post-processed plywood and doors, marketing them in Japan as well as various North American and European countries. While pursuing such afforestation activities as falkata in its aggressive efforts toward environmental preservation, KTI also plans to raise the ratio of afforested trees used as forestry products, and is focusing efforts on the development of complex construction materials using such sources as MDF, derived from afforested lumber, and particle board, which derives from afforested lumber as well as discarded wood. In July 2001, the Company acquired ISO 14001 certification.

• *P.T. Rimba Partikel Indonesia (RPI)*
Established in 1990, RPI manufactures and markets particle board composed chiefly of discarded materials produced by plywood mills and product plants. RPI has launched the production of tree nurslings and is currently subcontracting to farmers and pursuing afforestation activities.

• *P.T. AST Indonesia (AST)*
Established in 1996, AST processes particleboard and produces such products as speaker and musical instrument cabinets for the Japanese market.

• *Nelson Pine Industries Ltd. (NPIL)*
Established in 1986, NPIL carries out medium-density fiberboard (MDF) production and marketing using afforested radiata pine, and is the world's single-largest MDF plant. With its reputation for high quality, NPIL exports both to Japan as well as Australia, China and the United States. The company began production of radiata pinewood veneers in September 2001, and increased the number of new plants in January 2001 to initiate LVL production using radiata pine as a source.

Inside the KTI Plant (Left)
KTI production process for tree nurslings used in afforestation projects (Above)

住宅及び住宅関連事業

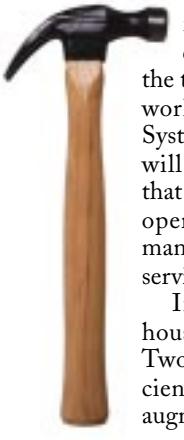
Sales and contract revenues in the Housing Segment rose 9.4% to ¥405.0 billion, and operating profit before allocating headquarter expenses climbed 223.5% to ¥16.6 billion.

The look of the "Forest Family"

Detached Homes

The Housing Segment markets homes in three different building methods through separate marketing channels. First, in custom-built wooden homes, which use the post and beam method of construction developed by the parent company, aggressive efforts were made in highly regionalized marketing through such initiatives as launching local products that accentuate the strengths of wood, and reinforcing the after-service structure. In addition, enactment of the Housing Quality Assurance Law has set specific standards for quality in terms of structural integrity, prevention of aging and air quality, with the introduction of the Housing Performance Indication System that numerically assesses the functions of newly constructed housing.

Consequently, the number of houses sold increased 3.9% to 10,990 units, with the addition of ready-built houses sold.



While standardizing operations, raising efficiency and reducing costs through such initiatives as the trial introduction of the new Network Aided Construction Support System (NACSS), Sumitomo Forestry will provide high-quality products that liberally employ wood, and expand operations with a key emphasis on management that provides tailor-made services.

In the custom-built two-by-four housing business operated by Sumirin Two-By-Four Homes Co., Ltd., efficiency was improved in all areas while augmenting the product line to continue accurately addressing the Housing Performance Indication System as well as the needs of customers with Western tastes in homes. Nevertheless, the number of houses sold declined 0.5% to 424 units.

Sumitomo Forestry developed a sub-floor inspection robot to improve maintenance efficiency.

中井敦司
Atsushi Nakai
Technology & Production Division

Sumitomo Forestry conducts activities that make abundant use of the strengths of wood.

In the wooden component housing business operated by Sumirin Component House Co., Ltd., reinforcing marketing capabilities and pursuing the creation of a manufacturing structure that addresses the Housing Performance Indication System resulted in a 46.5% increase in the number of houses sold to 296 units. Building on this success, the Company will bolster commercial development capabilities to meet customer needs, upgrade marketing bases and expand orders.

水上二三代
Fumiyo Mizukami
Tokyo Housing Business Division

Collective Housing

In the collective housing business, Sumitomo Forestry continued to concentrate on orders for and construction of rental apartments using the two-by-four method to provide high-quality rental condominiums that offer an atmosphere of security and contentment. As a result, the number of units sold rose 8.6% to 893 units, which includes steel and concrete apartments.

Home Remodeling

Sumitomo Forestry Home Tech Co., Ltd. is engaged in the home remodeling business, a market with promising growth potential amid an enormous housing stock. This company has bolstered efforts at improving customer satisfaction through such measures as clarifying its management position of providing tailor-made services, as in the detached homes business, as well as implementing the industry's first periodic post-construction inspections, and has worked to strengthen brand appeal.

With the establishment of nine new marketing offices to bring the total to 32 in the home remodeling business, sales increased 52.9% to ¥11.2 billion. In the future, Sumitomo Forestry Home Tech will accelerate the expansion of marketing offices, work to improve customer satisfaction and steadily pursue measures geared toward construction of a business platform to propel the Company to the top of the industry.

Home Landscaping and Other Businesses

In the home landscaping business, Sumitomo Forestry Landscaping Co., Ltd. concentrated on obtaining orders in exterior work and landscape gardening in the housing sector and vigorously strengthened its urban greenification business by acquiring orders from Universal Studios Japan, which opened in Osaka in spring 2001. The company also made use of plant nursling growth technology developed by the Tsukuba Research Institute for such activities as a cherry tree replenishment project for Daigoji Temple in Kyoto, famous for having the warlord Toyotomi Hideyoshi visit for cherry blossom viewing, as well as planting tests to recover natural vegetation lost by the pyroclastic flow of the Unzen volcano in Kyushu. Consequently, sales increased 13.8% to ¥30.5 billion.

Besides these activities, other Group companies are engaged in such operations as site surveys and construction for custom-built homes.

その他

Sales and contract revenues of this segment increased 8.1% to ¥9.4 billion, and operating profit before allocating headquarter expenses decreased 8.8% to ¥519 million.

清水孝一

Koichi Shimizu
Information Systems Division

Real Estate Distribution

Sumitomo Forestry Home Service Co., Ltd., which works to expand the real estate distribution business, established five new marketing offices to conduct highly tailored regional marketing, bringing the total to 37. The Company reinforced its businesses by augmenting its provision of real estate data through a Web site. Sumitomo Forestry Home Service aims to expand its marketing base network from point to surface, provide lot data to home owners looking to purchase land, and build a structure that can effectively integrate with the Housing Segment.

Agricultural and Gardening Potting Compost

Sumirin Agro-Products Co., Ltd. produces potting compost for agricultural and horticultural use, a business that we regard as contributing significantly to environmental preservation. The Company produces potting compost using the sediment in clean water generated by water purification plants operated by the government. In the fiscal year under review, we launched one new factory to carry out such activities in cooperation with a local municipality.

Other Business

Other business includes software development, a travel agency, leasing, and a temporary employment agency, all of which provide services to companies within the Group.

Sumirin Agro-Products' potting compost for agricultural and horticultural use is popular among tomato farmers.

研究開発

The Sumitomo Forestry Group engages in research and development in such areas as the regeneration of tropical rain forests, the development of high-quality wooden building materials that are safe and durable, and various technologies to provide customers with safe and secure housing. We conduct our research mainly at the Tsukuba Research Institute, but also at the Housing Headquarters Technology & Production Division, and in the design and development departments of various subsidiaries. During fiscal 2001, the Group as a whole invested ¥1.1 billion in R&D activities.

The Tsukuba Research Institute conducts multi-faceted inspections to ensure high product reliability (boiling test for laminated wood).

江川真
Makoto Egawa
Tsukuba Research Institute,
General Manager

In the Timber and Building Materials Segment, we are developing new products based on the concepts of anti-termite treatment for wooden building materials, low volatile organic compound (VOC) emissions and high durability. In the fiscal year under review, we researched the use of liquefied scrap wood in glues and coloring agents, and developed "*Kizure Panel*," highly durable wall paneling made from Japanese cedar.

In the Housing Segment, we are developing more efficient construction methods and improved technologies for space utilization to enhance basic housing functionality. In fiscal 2001, we obtained special evaluation method certification for energy conservation measures under the Housing Quality Assurance Law and researched new technologies such as base isolation and earthquake resistance devices.

In biotechnology, we are researching the regeneration of tropical rain forests, the use of tissue cultures to generate seedlings and agricultural materials, and environmental decontamination and greenification technologies. In the fiscal year under review, we discovered a bacteria involved in decomposition that carries the natural hormone bisphenol A (BPA), and developed an artificial soil basin for rooftops.

Decomposed bacteria of the environmental hormone bisphenol A (BPA)

企業市民として

As a company that handles the natural material of wood, Sumitomo Forestry is pursuing various measures aimed at finding a balance between the natural environment and modern society on a global scale. We not only work to protect the environment, but also effectively use wood and replenish it through afforestation to provide materials that bring people a sense of comfort in their lives.

Results of the restoration project for the tropical rainforest of Sebulu, East Kalimantan in Indonesia lasting 11 years began attracting the attention of countries around the globe.

Tropical Rain Forest Regeneration Project

In response to the important global issue of rain forest depletion, Sumitomo Forestry has been carrying out the Tropical Rain Forest Regeneration Project in Sebulu, East Kalimantan, Indonesia, since 1991. The aim of this project is to restore areas destroyed by forest fires and slash-and-burn farming to a state close to the original ecosystem. We support the planting of trees in the *Dipterocarpaceae* family, a local variety, as well as fast-growing species and fruit trees in a 3,000-hectare experimental forest, while promoting the development of technology for the regeneration of tropical rain forests and technical cooperation.

Our regeneration plans, the like of which have not been attempted, involve the use of afforestation technology for use in the regeneration of the locally dominant *Dipterocarpaceae* family of trees. We are working to strengthen socially responsible forestry, which aims to achieve peaceful co-existence between farming and forestry among slash-and-burn farmers and immigrants through relocation measures. We have already reforested a total of 400 hectares, and continue to encourage socially responsible forestry that is sensitive to the earth while establishing regeneration technology for tropical rain forests.

The Mt. Fuji Preserve the Forest Project ("Manabi no Mori"*) has seen over 3,295 volunteers participate since its inception.*

Mt. Fuji Preserve the Forest Project (*"Manabi no Mori"*)

Sumitomo Forestry is engaged in a reforestation project on 97 hectares of state-owned forest on Mt. Fuji that was destroyed by a typhoon in September 1996. With the cooperation of Company and local resident volunteers, 4,119 volunteers had planted a total of 30,935 saplings in 14 tree-planting sessions as of April 2001. This project will make further social contributions by being used as a place for environmental education, including the spread of important information on environmental conservation. In addition to holding tree-planting sessions for elementary and junior high school children, we aim to use the volunteer activity center "Forest Ark" as a headquarters for such environmental education activities as nature restoration monitoring and wildlife observation meetings, and for other socially responsible activities.

環境保護のために

With over 300 years of forest management experience, the Sumitomo Forestry Group is engaged in a variety of businesses associated with timber and housing such as processing and distribution of timber and building materials, and construction and sales of custom-built wooden homes. Amid deepening concern for environmental issues, it is necessary for businesses to make efforts to reduce their burden on the environment. Making full use of management resources, Sumitomo Forestry is putting a great deal of effort into our environmental operations.

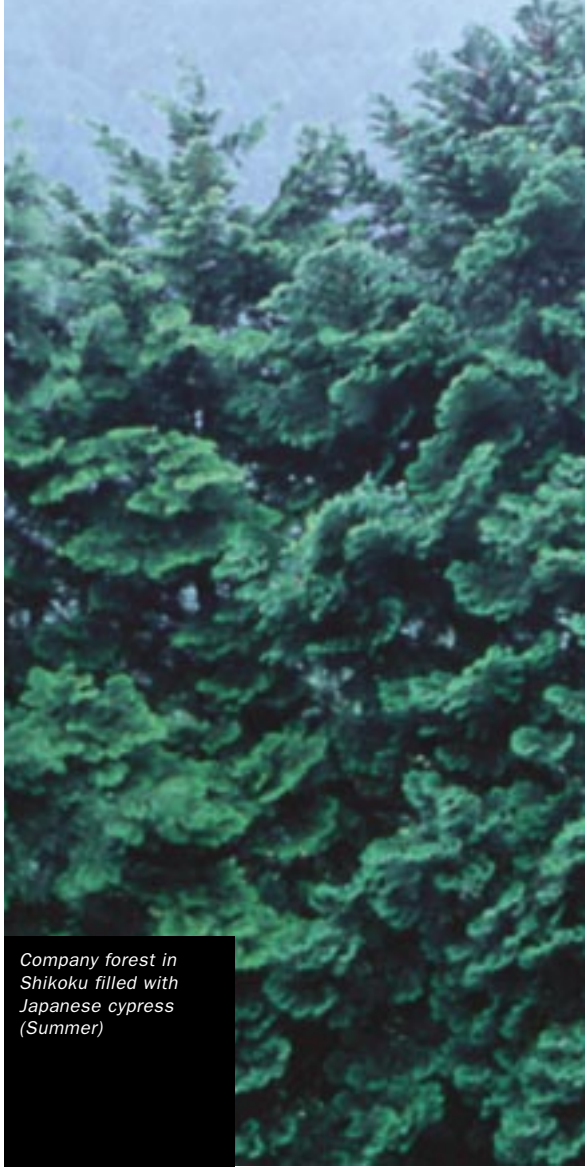
Acquisition of ISO 14001 Certification

As one part of our environmental conservation efforts, we introduced a Company-wide environmental management system. Since August 1997, Sumitomo Forestry has acquired ISO 14001 certification for environmental management at five headquarter divisions and the Northern Kanto regional division. In July 1999, we became the first company in Japan to acquire ISO 14001 certification for forestry management, and in August 1998, we were the first in the housing industry to obtain ISO 14001 certification for all branches and sales offices. In August 2001, we stepped up environmental considerations in our operations by acquiring ISO 14001 certification for all business divisions. Our next goal is to obtain ISO 14001 certification for each Group company.

Forestry Management

Sumitomo Forestry owns timberland that accounts for approximately one-thousandth of Japan's total landmass, or roughly 40,000 hectares. Based on our policy of sustainable forestry, we carry out selective logging rather than clear cutting to foster sound forest ecosystems and promote steady growth. Amid increasing concerns about global warming, our extensive forestry reserves contribute to the control of greenhouse gases through the absorption of carbon dioxide.

Company forest in Hokkaido (Winter)



Company forest in Shikoku filled with Japanese cypress (Summer)

Timber and Building Materials

Sumitomo Forestry Group companies that manufacture building materials provide products that take environmental impact into account. With the increase in worldwide environmental consciousness in recent years, Indonesia-based plywood manufacturing affiliate P.T. Kutai Timber Indonesia creates eco-friendly products by increasing the percentage of trees used as raw materials, such as falkata. Furthermore, the company promotes business activities that place importance on coexisting with nature, and obtained ISO 14001 certification in July 2000. In New Zealand, Nelson Pine Industries Ltd. (NPIL) manufactures MDF made from the hardened fibers of New Zealand radiata pine, which can be regenerated easily owing to its fast growth. We expect a rapid increase in demand in the European,

U.S. and Japanese markets for products using materials collected and processed in an environmentally responsible manner. In the future, these building materials will become increasingly well known for their role in preserving the environment.

Housing Construction

In August 1999, Sumitomo Forestry's houses were certified as "Environmentally Symbiotic Housing" due to their environmentally responsible construction and energy efficient structure, which fulfills the Environmentally Symbiotic Housing Systems criteria for highly efficient resource usage, health, comfort and safety. Sumitomo Forestry is creating environmentally sound housing based on the following policies: (1) We aim to reduce environmental load from the basic stage of product development and design; (2) We use materials and recycled products that reflect environmental considerations; (3) We use production and processing technologies that are highly energy efficient; and (4) We strive to reduce the amount of waste materials, to reuse and recycle whenever possible, and to responsibly dispose of unusable materials.

The disposal of waste materials used in construction has become a serious issue in the housing industry. In aiming to help achieve a recycling society, Sumitomo Forestry has made continuous efforts to reduce, separate and recycle waste. To control the amount of scrap wood generated at building sites from on-site processing, we precut siding materials for external walls in addition to factory precutting of wood materials. We are also aggressively pushing forward the recycling of waste materials generated during dismantling.

Environmental Businesses

The Sumitomo Forestry Group is developing businesses and technologies to preserve the environment and as a new strategy to contribute to the formation of a recycling society. We are promoting overseas replanting projects and consulting, as well as participating in Official Development Assistance afforestation projects. Furthermore, we are making efforts to develop glues made from wood and wooden boards using recycled scrap wood. We promote effective ways to use materials previously treated as industrial waste, such as using sediment generated by water purification plants as potting compost for horticultural use.

Company forest in Wakayama (Fall)

楠本洋一
Yoichi Kusumoto
Green Environmental R&D Division

1691

Company is established; Provided forest for mining through development of the Sumitomo family's Besshi copper mine

A map of Besshi copper hills (The Edo Period)

1894

Teigo Iba

Based on the philosophy of rewarding the national land, Teigo Iba, manager of the Besshi mining business, launches the "Great Tree Planting Project" in the mountains of Besshi, which were ravaged by copper smelting. This project would go on to become the foundation for the Sumitomo Forestry mountain forest management approach, ensuring its sustainability.

1942

Forestry operations launched in Sumatra, Borneo and Java

1948

Zaibatsu (financial group) disbanded; Sumitomo Forestry's business is separated into six companies, and Sumitomo Forestry Co., Ltd. is later established through a merger

1955

Nationwide lumber collection and marketing structure created

Imported lumber being unloaded at docks

1956

Initiated foreign lumber import business

1970

Company listed on the Osaka Securities Exchange

1972

Launched greenification business

Power of the Forest

WORLD TIMELINE

1688
England's Bloodless Revolution—It was discovered that the existence of numerous factors demonstrated the uniqueness of every society; Parliamentarism introduced.

1896
First World Olympics—This event aimed to uplift the qualities of strength, determination and cunning to respect and promote balanced athletes.

1939
Outbreak of World War II—The largest war experienced in the history of humankind, producing enormous casualties.

1948
Emergence of State of Israel—Middle East War breaks out following declaration of independence by Israel.

1963
U.S. President John F. Kennedy Assassinated

1966
Chinese Cultural Revolution—The wild proletariat cultural revolution unfolded over a 10-year period

1969
First Man on the Moon—The Apollo Project promoted by President Kennedy enters planning stage; The Apollo 11 launch peaks with the first two men to walk on the surface of the moon.

1971
Dollar Shock—On August 15, the declaration of resignation by President Nixon, who had promoted a defensive dollar policy, caused a steep drop in stock prices the following day. By August 28, the fixed rate system held at US$1 to ¥360 shifted to a floating rate system.

1974

Regional plywood mill established in Indonesia through the affiliated company P.T. Kutai Timber Indonesia, established in 1970; this represents the first step in the Company's wood materials production business

The KTI Plant

1975

Launched custom-built wooden homes

A custom-built wooden home created in the 1970s

1986

Full-scale operations of MDF production mills are initiated through Nelson Pine Industries Ltd., a subsidiary in New Zealand

1988

Established Sumitomo Forestry Construction Technology College; Began cultivation of construction engineers

1990

Company listed on the Tokyo Stock Exchange

Tsukuba Research Institute

1991

Established Tsukuba Research Institute

Experimental woodland in Sebulu

1997

Started Manabi no Mori, a project designed to contribute to society by restoring natural forests in typhoon-damaged areas of Mt. Fuji

1998

Established mass-tree-planting method following organized cultivation of Dipterocarpaceae family

Trials in organized cultivation of Dipterocarpaceae family

2001

Acquired ISO 14001 certification for all domestic offices of Sumitomo Forestry Co., Ltd.

Sumitomo Forestry's history of more than 300 years has involved a continued effort to manage forestry and provide society with the bounty of the forests, as our name suggests. Wood is a natural and easily replenishable resource, as well as an excellent building material due to its low environmental impact. The Sumitomo Forestry Group provides the superb qualities of wood through a wide range of businesses from upstream to downstream, including forest cultivation, production and distribution of wood materials, construction of wooden houses, and home remodeling, and is pursuing business with the aim of creating a more comfortable environment for people to live in.

1980
Iran-Iraq War—The world's first missile-based war.

1985
Former Soviet Secretary-General Gorbachev assumes office—The core policy of perestroika (reorganization) developed on cultural, social and political levels rather than an economic one. Also known as glasnost (openness).

1990
Reunification of East and West Germany—Reunification was achieved less than one year after the fall of the Berlin Wall. Prime Minister Cole announced the entry of a unified Germany into NATO.

1991
Dissolution of the USSR

1994
Nelson Mandela, a leader of the African National Congress (ANC), assumes office as president of South Africa.

1995
First successful cloning of sheep achieved in England

1999
Drosophila genetic code broken in the United States; Genetic mapping becomes both a decisive factor in solving many medical, food supply and environmental problems, as well as a potential gold mine as a new industry.

Company forest near Besshi, Shikoku