



SUMITOMO FORESTRY CO., LTD.

ANNUAL REPORT 2002
Year ended March 31, 2002

ENSURING FORESTS
REMAIN A RESOURCE
FOR GENERATIONS
TO COME

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.

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LIVING WITH FORESTRY

A Company-owned forest in Hokkaido

MANAGEMENT PRINCIPLES

The Sumitomo Forestry Group brings to the forefront over 300 years of expertise and experience with wood, a material indispensable to mankind. Through a wide variety of activities we endeavor to make the unique characteristics of wood an integral part of society, always with the goal of enriching people's lives. In everything we do, we adhere to the principle of placing the customer first, as we strive to fulfill our mission of being a corporate group that is an asset to society.

OPERATING ENVIRONMENT

Achieving recovery remained an elusive goal for the Japanese economy during fiscal 2002, ended March 31, 2002. Prices continued to fall, production rate decreased, and individual consumption remained low. In addition the country saw record-high unemployment, as the job market continued to deteriorate, while in the second half of the fiscal year apprehension over a possible deflationary spiral rendered conditions even graver.

In the housing industry, prolonged anxiety over job and income security further depressed consumers' eagerness to purchase homes. New housing starts during the period declined 3.3% from the previous fiscal year to 1,173,000 units, and new housing starts of owner-occupied homes, the core of the Group's business, declined 13.9% to 377,000 units. The Timber and Building Materials segment also experienced a downward turn, due mainly to the decline of new housing starts, principally for owner-occupied homes.

MANAGEMENT POLICIES AND BUSINESS RESULTS

Despite this challenging environment, we maintained an aggressive business stance, while streamlining and improving the efficiency of management, strengthening our management base.

In the Timber and Building Materials segment, we strengthened our relationships with key trading partners and made aggressive moves to expand our markets. Our building materials subsidiary in New Zealand will be fitted with a production line for the next strategic products. As a result, even as new housing starts in Japan continue to decline, the volume of building materials and imported board products such as plywood and medium-density fiberboard (MDF) that we handle is increasing. We are certain that this will allow us to further enhance our strong position in the industry.

In the Housing segment, we focused on retail sales, improving show homes and adding salespeople in an effort to increase the number of orders, as well as promptly providing products and services that meet consumer needs. In particular, a service offered through a tie-up between our sales offices and local real estate agents that provides first-time homebuyers who do not own land with current property information has been a better-than-expected success. We also emphasized the promotion of products that make ample use of the superior characteristics of wood have also been well received by customers, and sales promotion has been strengthened. As a result of these steps, although the market shrank dramatically, our decrease in orders for new homes was only 6.1%, and our reduction in completed projects was limited to 6.2%. We were consequently able to increase our share of the owner-occupied housing business from 2.7% in the previous fiscal year to 2.9%.

The downturn in market conditions, however, arrived faster than we had forecast at the beginning of the fiscal year

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
Net sales and contract revenues	¥644,730	¥682,375	¥699,594	¥620,615	¥713,728	\$4,884,318
Operating profit	3,040	15,999	13,549	6,210	5,805	23,030
Net income	465	6,994	5,708	134	2,145	3,522
Total assets	365,531	371,102	360,935	346,293	341,325	2,769,174
Total shareholders' equity	147,440	150,979	144,914	139,301	140,357	1,116,969
ROE (%)	0.3	4.7	4.0	0.1	1.5	—
ROA (%)	0.1	1.9	1.6	0.0	0.6	—

	Yen				U.S. dollars
Net income per share	¥ 2.64	¥39.64	¥32.36	¥ 0.76	\$0.02
Cash dividends per share	10.00	10.00	10.00	10.00	0.07

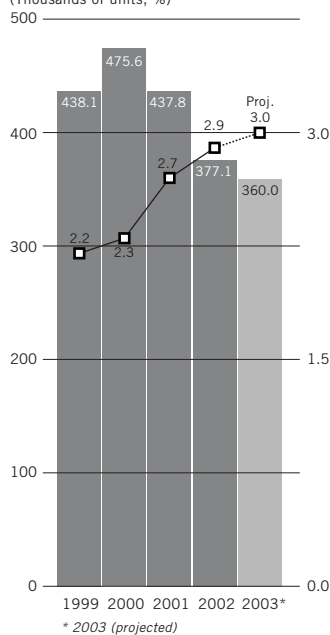
Note: Yen amounts have been translated for convenience only, at ¥132=US\$1.

under review, and our consolidated operating performance reflects this, with profit down significantly. Net sales and contract revenues declined 5.5% to ¥644.7 billion (US\$4,884.3 million), operating profit dropped 81.0% to ¥3.0 billion (US\$23.0 million), and net income plunged 93.4% to ¥465 million (US\$3.5 million).

The slowdown in the detached home business was a major contributing factor to the above declines. The ongoing nationwide business slump led customers to either postpone or cancel home-building projects, and the number of completed projects decreased 6.2% to 10,945 units, down 726 units from the previous term. Other reasons for the decline include a fall in sales revenue per project that accompanied an increase in first-time home buyers (down ¥400,000 per project from the previous fiscal year), slimmer profit margins for each completed project due to fierce competition, and sagging operating profit ratios resulting from increases in sales expenses (down 2.8%, but inclusive of the collective Housing Division).

OWNER-OCCUPIED HOUSING STARTS AND COMPANY'S SHARE (Consolidated)

(Thousands of units, %)



In terms of financial position, we stepped up our debt repayments to strengthen the corporate structure and ensure financial health. Long-term debt increased ¥3.9 billion owing to capital investments in new machinery for the laminated veneer lumber (LVL) production line at Nelson Pine Industries Ltd (NPIL) in New Zealand, but overall interest-bearing debt declined ¥6.4 billion due to redemption of Euro-denominated straight bonds. We also recorded an extraordinary loss of ¥633 million as a writedown on the value of a portion of our equity holdings.

MANAGEMENT RESTRUCTURING PLAN

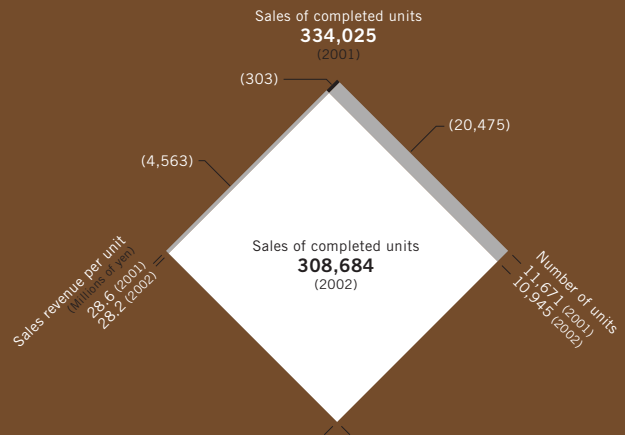
We are forecasting an even more severe market environment for fiscal 2003. We have, therefore, undertaken the following management restructuring measures to maintain our current sales levels and generate even greater profit.

We began with reform of the management structure. An executive officer (shikkou-yakuin) system was introduced in June 2002 that separated decision-making and director functions from management functions, clarifying the responsibilities and authority of each. At the same time, we reduced the number of directors from 18 to 7 in order to accelerate the decision-making process. In conjunction with reform of the headquarters organization that has been implemented with the goal of consolidating strategic functions, we are creating a management structure that is able to respond quickly to sudden changes in the operating environment. We have also begun a fundamental reform of human resource policies including the evaluation system and compensation structure as a means of ensuring that our employees' full potential is realized.



SALES AND VARIATION ANALYSIS OF COMPLETED UNITS

(Millions of yen, Units)



The sales revenue per completed unit declined ¥400,000 from the previous fiscal year. The fall in total sales revenue due to this factor was ¥4,563 million.

The number of completed units declined by 726 from the previous fiscal year. The fall in total sales revenue due to this factor was ¥20,475 million.

The next step is to strengthen our profit structure by reducing sales management expenses and drastically cutting production costs. By revising material costs and streamlining production, we plan to reduce production expenses ¥5.0 billion in the first year, and ¥15.0 billion in the third year. From the second year, we expect to begin realizing the positive effects of the Network Aided Construction Support System (NACSS) that is currently being introduced. For selling, general and administrative (SG&A) expenses, we have shifted away from our previous focus on business expansion towards a more efficient management system that stresses a balance between sales and expenses. While allowing us to forge a future path to expand business, these guidelines will also ensure an aggressive structure for increasing orders. Further, we are reducing operating expenses Company-wide by streamlining our personnel assignments, and rethinking expensive and passive marketing activities such as show homes. As a result of these measures, our plan for fiscal 2003 calls for a ¥4.0 billion reduction in operating expenses.

Moreover, to enhance product development in the Housing segment, we established a specialized department dedicated to speeding up the pace of development so that we are able to respond to customer needs in a more accurate and timely manner.

For the near future, we have identified the Group's core business as the overseas business, which produces and markets wood building products mainly in the Pacific Rim area, and the existing housing businesses, such as those that deal with the home remodeling and real estate brokerage businesses. We plan to nurture and hasten expansion of these businesses, modifying our current portfolio to be less dependent on new housing starts in Japan.

ENVIRONMENTAL MEASURES

We have adopted environmental preservation as one of our key management principles, and have contributed to the conservation and improvement of the natural and living environments through all of our activities. This perspective is wholly appropriate for a company that, for more than 300 years, has made a business of forest cultivation, aimed to achieve a symbiosis between industry and nature, and grown by making effective use of the wonderful properties of wood.

Following this conviction, we worked hard to acquire ISO 14001 certification as an impetus to establish an ongoing environmental management system. Subsidiary P.T. Kutai Timber Indonesia (KTI) acquired certification in July 2001, and as of August that year all of our offices in Japan have acquired certification. We are pushing for the implementation and certification of all companies throughout the Group worldwide.

Drawing on the management resources acquired in our forestry and housing businesses, new businesses we are developing include afforestation efforts overseas and recycling of waste and by-products of construction materials.



Ryu Yano
President and Chief Executive Officer