



TIMBER AND BUILDING MATERIALS



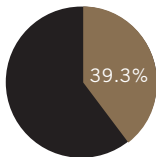
The Timber and Building Materials segment benefited from the demand for housing materials that accompanied the relatively strong starts of apartments and condominiums, as well as from an upswing in production and sales of building materials achieved in overseas subsidiaries and affiliated companies. Overall, however, negative effects resulted from the slump in new housing starts. Sales and contract revenues declined 5.5% to ¥253.1 billion, and operating profit before allocating headquarter expenses fell 63.3% to ¥1.8 billion.

INTERNATIONAL AND DOMESTIC BUSINESS

The Timber and Building Materials segment made efforts to strengthen its position within the industry and shore up its base for competitiveness and profitability in the face of continued falling demand and lower prices.

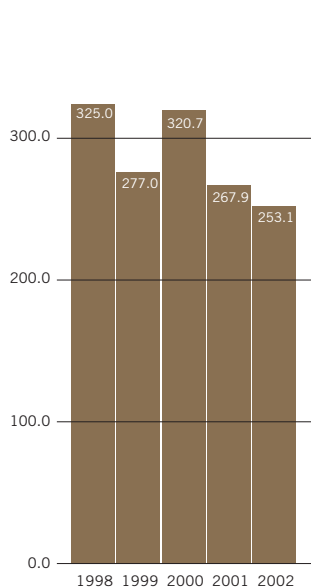
Particular attention was paid to expanding business and hastening growth of the building materials production business overseas, which we have identified as one of the core

PERCENTAGE OF TOTAL NET SALES (2002)



SALES AND CONTRACT REVENUES

(Billions of yen)



businesses for the future of the Sumitomo Forestry Group. Nelson Pine Industries Limited (NPIL) in New Zealand focused on continuous development of new type of products for its mainstay medium density fiberboard (MDF), which is water-resistant with very low formaldehyde emission. A new production line was also established for the next strategic product, laminated veneer lumber (LVL), and test production began along with commercial production of veneers. There are a wide variety of applications for LVL, including construction and interior materials, and its penetration is expected into these markets.

Subsidiary KTI, meanwhile, has added a second core product in the form of such composite wood products as doors, which have a high added value, in addition to its main plywood products. KTI has made extensive efforts at environmental preservation, acquiring ISO 14001 certification in July 2001. The company has also begun afforestation of falkata trees, the main source of raw material, in cooperation

with the Indonesian state-run agricultural corporation as part of a plan to increase the ratio of planted trees used as raw material.

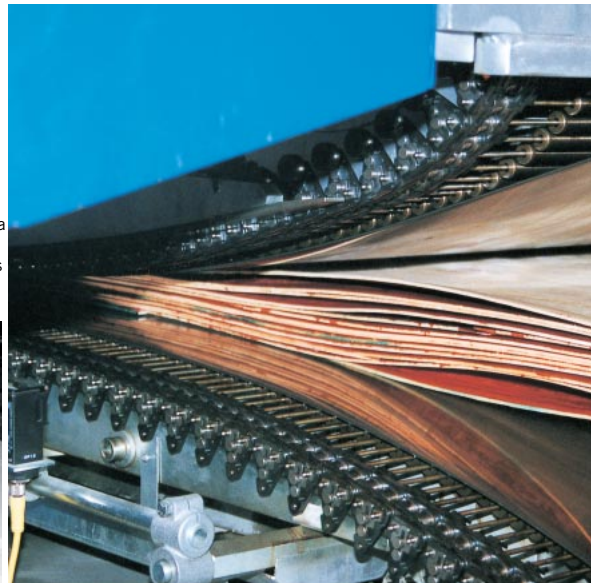
P.T. Rimba Partikel Indonesia (RPI) manufactures particleboard with wood waste collected from regional wood processors and has begun producing saplings that can be used for afforestation, expanding the scale of its business on the twin pillars of environmental preservation and increased profitability.

P.T. AST Indonesia (ASTI), moreover, produces products such as speaker boxes and musical instrument cabinets for both local and export markets.

The wood products produced in Sumitomo Forestry's overseas factories are exported to North America, Asia, Oceania and Europe as well as Japan. Sumitomo Forestry Group is focusing on expanding its overseas marketing activities as a means to promote sales in the Pacific Rim and increase revenues.

LVL is produced using radiata pine veneer.

Sumitomo Forestry Crest (Kashima plant) produces interior doors from composite building materials using KTI's planted Falkata wood and MDF made by NPIL.



In the Japanese market, four subsidiaries that produce building materials were merged at the beginning of the fiscal year under review to form Sumitomo Forestry Crest Co., Ltd. This restructuring will strengthen our sales and marketing structure, allow joint product development with overseas subsidiaries, increase competitiveness and provide us with a foundation for growth.

DISTRIBUTION BUSINESS

The timber and building materials distribution business increased its market share by strengthening alliances with its principal trading partners and expanding existing sales routes. Sumitomo Forestry is also pioneering new avenues for distribution to meet the needs of the market through Precut Forum 21, a network of

mills across Japan producing quality precut wooden products. Through this network we provide precut building materials called PF-WOOD, which is subjected to our own rigorous quality check and carries a 10-year defect warranty. We also use Precut Forum 21 to promote the “MIZDAS” wood seasoning system we have developed, to make the use of lumber from domestic logs more widespread.

Sumitomo Forestry has increased its market share of such imported products as logs, sawn timber and wooden panels, and holds the top or equal position in the industry in each import product group. We have also worked hard to reduce inventories and base our purchasing on actual demand to minimize the effects of market changes.

Imported lumber from Europe and North America being unloaded at Tokyo Bay

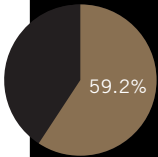


The staffs of KTI measure the growth of the planted Falkata trees used for raw material.



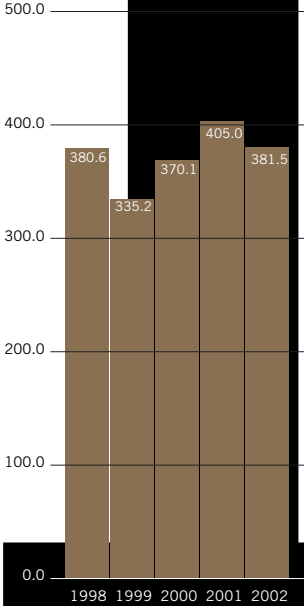
HOUSING AND HOUSING-RELATED BUSINESSES

PERCENTAGE OF
TOTAL NET SALES (2002)



SALES AND CONTRACT
REVENUES

(Billions of yen)



Activities were conducted with a view to achieving a rapid response to market changes, and a management policy that gives primary importance to customer satisfaction. The operating environment was severe, however, and sales and contract revenues in the Housing and Housing-Related segment fell 5.8% year-on-year to ¥381.5 billion, and operating profit before allocating headquarter expenses fell 70.2% to ¥4.9 billion.

HOUSING

The housing construction business is enhancing its brand value by developing products that make full use of superior-quality woods, and strengthening its follow-up services based on a customer-first philosophy.

In the business for custom-built wooden homes using the traditional post and beam method, we began marketing “GODAI One’s Story,” a new addition to the mainstay GODAI series. This new model uses laminated wood from Japanese *hinoki* cypress in the foundation and beams, and “*Kizure Panel*,” highly durable wall paneling made with Japanese cedar as a core material, which offers both strength and good air flow.

We have also worked to increase orders by focusing our marketing on two tiers of homebuyers. On one level, we established the “Design Partner Group,” an organization specializing in luxurious, higher-priced houses for buyers of more

expensive homes. On the second level, for first-time buyers who often need help with land purchases, we created the “*Tochikara* (literally, ‘beginning with land’) Support System” that helps to strengthen cooperation between our sales offices and local real estate agencies. This order promotion scheme has produced consistently good results, but due to the ongoing national business slump and employment anxiety, there has been an increase in the number of projects that have been downsized, postponed or canceled.

In the business for custom-built wooden homes using such other construction methods as the two-by-four method or pre-fabricated wood-frame method, we have focused on continual improvements to efficiency across the entire process, upgrading sales offices and enhancing product appeal. Sumitomo Forestry Component House Industry Co., Ltd. was able to cut costs by revising its production structure. Sumirin Two-By-Four Homes Co., Ltd. is now able to offer products with outstanding functionality and design that meet the varied needs of customers, such as three-story homes designed for small or narrow plots of land.

Despite these varied efforts, orders for new detached homes throughout the Group dropped 6.1% to 10,685 units compared with the previous fiscal year, and the number of housing completions, including subdivisions and condominiums, fell 6.0% to 11,008 units.



In the collective housing business, we continued to enhance our marketing position by focusing on construction of wood-frame apartments for the urban rental market, an area in which demand is expected to increase, and the launch of “Succeed F-Style,” which amply incorporates high-quality wood and has the ambience of a detached home. As a result, new construction orders increased 49.5% to 1,075 units compared with the previous fiscal year, although the number of completed projects decreased 8.0% to 822 units.

HOME REMODELING, HOME LANDSCAPING AND OTHER BUSINESSES

In contrast to the stagnant new housing market, the market for home remodeling continues to grow, and is forecast to exceed ¥10 trillion by 2015 (1.6 times the year 2000 level) according to a private research center. At Sumitomo Forestry Home Tech. Co., Ltd., the principal home remodeling company for the Group, net sales skyrocketed from ¥7.3 billion in fiscal 2000 to ¥11.2 billion in fiscal 2001, and to ¥14.8 billion in fiscal 2002. Operating income at that company rose from ¥80 million in fiscal 2000 to ¥300 million in fiscal 2001, and to ¥600 million in fiscal 2002, a rapid growth that outstripped the market.

One of the unique points about Sumitomo Forestry Home Tech is that every employee is a qualified architect, with the exception of clerical staff. This allows the company to offer designs to customers that place importance on the special characteristics of wood—the Group’s trademark—backed by solid technical skill. The company also emphasizes such follow-up services as regular visits after construction is completed, and by achieving a high level of customer satisfaction, it is able to distinguish itself from the competition. Accordingly, sales are steadily rising.

In addition to overseas operations, the Sumitomo Forestry Group has identified existing-housing-based businesses involving second-hand homes, such as home remodeling and real estate agency business, as one of its core businesses for the near future and is hastening its growth.

The tree-planting and home landscaping businesses have increased their orders by developing unique products and through enhanced cooperation with the Housing Division. They have also taken aggressive steps in businesses relating to environmental preservation, such as experiments to restore the natural forest surrounding the Unzen volcano in Kyushu, and landscaping on the rooftops of buildings.

Careful construction using high-precision materials and a high standard of architectural skill



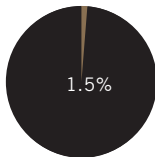
Improving the functionality of wooden houses with numerous tests and certifications



OTHER

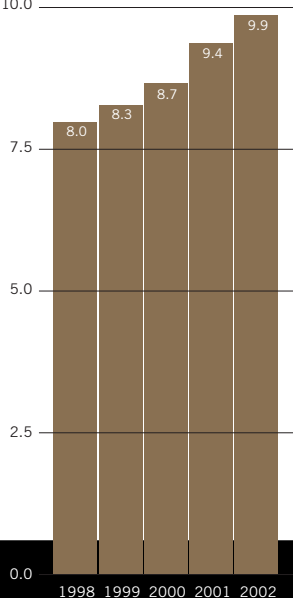


PERCENTAGE OF TOTAL NET SALES (2002)



SALES AND CONTRACT REVENUES

(Billions of yen)



Sales and contract revenues in the Other segment increased 6.0% to ¥9.9 billion, and operating profit before allocating headquarter expenses increased 11.7% to ¥579 million.

The Sumitomo Forestry Group also includes a real estate brokerage and a business engaged in producing and marketing compost for agriculture and gardening, as well as a variety of service-oriented businesses including information system development, general insurance and leasing agencies.

In the real estate brokerage business, although per-unit commissions have declined along with the fall in land prices, a focus on increasing the number of units handled and overall profitability helped to secure profits. During the term under review, we concentrated on expanding our network of local area locations and on creating an organization for providing a complete lineup of services relating to real estate brokerage, including leasing management and remodeling.

The agricultural and gardening potting compost business succeeded in expanding its production and marketing of potting compost derived from sediment produced by water purification plants.

With regard to environmental preservation efforts, Sumitomo Forestry has been highly praised internationally for the positive results achieved in its tropical rain forest regeneration experiments conducted over many years. We won the first order given for an afforestation project as part of Japan's Official Developmental Assistance (ODA) program for the replanting of the Way Kambas National Park in Indonesia, and launched a full-scale afforestation effort in November 2001.

Elephant training center in the Way Kambas National Park in Indonesia



Sumitomo Forestry has over 300 years of forestry management experience, and today engages in a variety of businesses associated with timber and housing, including the processing and distribution of timber and building materials and the construction and sale of custom-built wooden homes. All of these businesses have a deep relation to the natural material of wood, which is a renewable resource. As global environmental issues become increasingly important, Sumitomo Forestry is actively engaging in environmental businesses that take advantage of its management experience, stepping up efforts in environmental protection, education and social contribution, as well as pursuing afforestation with an eye toward recycling, waste reduction and the ecosystem.



ENVIRONMENTAL STEWARDSHIP AND CORPORATE CITIZENSHIP



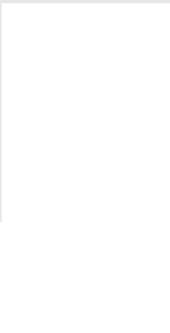
ACQUISITION OF ISO 14001 CERTIFICATION

Sumitomo Forestry early on introduced a Company-wide environmental management system as part of its continuing environmental preservation efforts. In 1997 the Housing Division acquired ISO 14001 certification, the international standard for environmental management systems, followed by the Forest Management Division in 1999. By 2001, all divisions and departments of Sumitomo Forestry in Japan had obtained certification.

The Housing Division is also the first in the industry to attain certification for all domestic branches and sales offices as well as all housing functions, from product development to design, construction, material purchasing, scrap materials from new houses and recycling after disassembly. The Forest Management Division was also first in the forestry field in Japan to acquire certification for forestry management. Sumitomo Forestry is now working to acquire ISO 14001 certification for all its Group companies.

FORESTRY MANAGEMENT

Sumitomo Forestry owns roughly 40,000 hectares of timberland, an area that accounts for approximately one-thousandth of Japan's total landmass, managed under a policy of sustainable forestry management and employing selective logging to maintain the forest. Instead of harvesting all the trees in a widespread area at once, only certain sections are harvested at a time. The harvested area is kept to within the limits that the forest is able to grow in a year, and by planting saplings that will become the next generation of trees in the harvested area, Sumitomo Forestry is contributing to the preservation of the global environment and conservation of resources. We also proactively promote business methods that combine consideration for the environment with more productive forestry management, helping to preserve the forest ecosystem.



Company-owned forests (from left): Wakayama (Spring), Kyushu (Summer), Hokkaido (Autumn), and Shikoku (Winter)



TIMBER AND BUILDING MATERIALS

The Sumitomo Forestry Group companies that produce building materials are responding to the heightened awareness of environmental issues in the world today by making products from materials obtained in an environmentally responsible way.

Nelson Pine Industries Limited (NPIL) in New Zealand uses radiata pine, a wood that can be quickly replenished, to produce laminated veneer lumber (LVL) and medium density fiberboard (MDF). Some of the pine logs are peeled to a thickness of only a few millimeters and pressed together to produce LVL. Other logs are converted into chips, which are broken into fibers and used to produce MDF boards. NPIL reuses wood remnants and bark leftover from the manufacturing processes as fuel for the plant, and makes chips from the cores that remain after the manufacture of veneer as material for MDF. These and other processes have allowed the plant to control its waste output and achieve zero pollution emission by efficient use of resources.

P.T. Kutai Timber Indonesia (KTI), a manufacturer of high-quality plywood, is reducing the environmental burden of its products by promoting afforestation through use of superior, fast-growing trees such as falkata to raise the percentage of plantation-grown wood in its products to 70% by 2005. KTI obtained ISO 14001 certification in July 2001, strengthening Sumitomo Forestry's marketing position in North America, Europe and Japan.

P.T. Rimba Partikel Indonesia (RPI), a manufacturer of particleboard also based in Indonesia, is procuring more afforested wood, as well as scrap wood, for raw material.

HOUSING CONSTRUCTION

Sumitomo Forestry works proactively to ensure that environmental preservation is a consideration throughout the entire housing construction process. We are promoting efficient use

of the domestic timber that it will soon be necessary to log as part of proper forest management, by developing new products such as beams and foundations that use *hinoki* cypress, and "Kizure Panel," highly durable wall paneling made from a lattice of cedar that is strong and provides good air flow. We are also building a route for recycling of waste material left over from construction, an increasingly serious concern in the housing industry. Our goal is to increase the percentage of recycled waste from its fiscal 2000 total of 65%, to 95% by fiscal 2005.

In addition, our industry-leading pre-cut materials make it possible to reduce on-site processing and limit the amount of leftover material. In this way, We are able to use recyclable and environmentally friendly materials beginning from the product development stage. The housing businesses can then utilize production and processing technology that is highly energy efficient, as well as ensure reduction, proper disposal, recycling and reuse of waste materials from construction.

Sumitomo Forestry's houses have been classified as "Resource Efficient" and "Healthy, Comfortable, Reliable and Safe" by the Institute for Building Environment and Energy Conservation (IBEC). Our houses have also been certified as "Environmentally Symbiotic Housing," acknowledging our efforts to create environmentally responsible housing.

ENVIRONMENTAL BUSINESSES

The Sumitomo Forestry Group pursues business and technological development in a wide range of fields related to environmental preservation, and anticipates this segment becoming a new pillar of profitability. We won the first order given for an afforestation project as part of Japan's Official Developmental Assistance (ODA) program for the replanting of the Way Kambas National Park in Indonesia, launching a full-scale afforestation effort in November 2001 with the purpose of restoring forest areas destroyed by fire. Sumitomo Forestry was also commissioned by Japan's Ministry of the Environment to conduct a survey of clean development mechanism (CDM) operations in the state of East Kalimantan in Indonesia. This continuing survey assesses the impacts and



effects that sustained afforestation efforts to absorb and trap such greenhouse gasses as carbon dioxide (CO₂) has on forestry businesses, ecosystems, the society and economy, as well as on the people of the area.

We are also pursuing businesses that effectively utilize waste materials, such as the development of wooden boards made from recycled scrap wood generated during the dismantling of housing, and the production of compost for agriculture and gardening derived from the sediment produced by water purification plants.

TROPICAL RAIN FOREST REGENERATION PROJECT

The decrease of tropical rain forests has become a serious global problem, and in response, the Sumitomo Forestry Group launched the Tropical Rain Forest Regeneration Project in Sebulu, East Kalimantan, Indonesia, in 1991. KTI, in a joint effort with Tokyo University and the Indonesian government, is conducting research and development on the technology involved in regeneration of tropical rain forests in a 3,000-hectare experimental forest. This project, a partnership of industry, academia and government, has steadily produced results. The first afforestation methods have been established for the *Dipterocarpaceae* family, the principal local variety of tree, and greater efforts are being made at socially responsible forestry, helping to realize a coexistence of forestry and agriculture between the slash and burn farmers and the settlers. This test forest has been created as a model for sustainable management, with the aim of demonstrating how to make land productive without excessive burning of fields.

The *Dipterocarpaceae* test location for the Tropical Rain Forest Regeneration Project in Sebulu, East Kalimantan, Indonesia



A total of 440 hectares were planted in the test forest as of the end of March 2001. Sumitomo Forestry will continue in its efforts to enhance socially responsible forestry throughout the world, and develop effective tropical rainforest regeneration technology.

SUMITOMO FOREST ECOSYSTEMS

Based on the principles for forestry management and utilization adopted by the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro in 1992, Sumitomo Forestry implemented a forest management process called Sumitomo Forest Ecosystems. The objective of this initiative was to give concrete form to the new style of forest management being demanded by society, one which respects all the functions of the forest ecosystem, including the animals and microorganisms, as well as the land, water, air and scenery.

In 1993, Sumitomo Forestry established Forester House and Memorial Square in Besshiyama, Ehime Prefecture, on part of our land as a facility to help educate the public regarding the functions and role of forests.

MT. FUJI PRESERVE THE FOREST PROJECT (“MANABI NO MORI”)

In September 1996, a large area of state-owned forest on Mt. Fuji was destroyed by a typhoon. Sumitomo Forestry began a reforestation project with the cooperation of a large number of local volunteers, and by May 2002 had planted 34,660 local varieties of tree saplings during 17 sessions. The Mt. Fuji “*Manabi no Mori*” project (literally, “the learning forest”) is a 90 hectare area dedicated to teaching the importance of environmental preservation. In addition to supplementary planting and nurturing of reforested areas, Sumitomo Forestry plans to continue such educational activities as sketching contests and nature walks. Sumitomo Forestry is also conducting surveys of vegetation to gather information on forestry management aimed at quickly regenerating natural forests, as well as surveys of birds and animal life to measure the progress of natural forest regeneration.



A total of 5,034 people participated in the Mt. Fuji “*Manabi no Mori*” project.



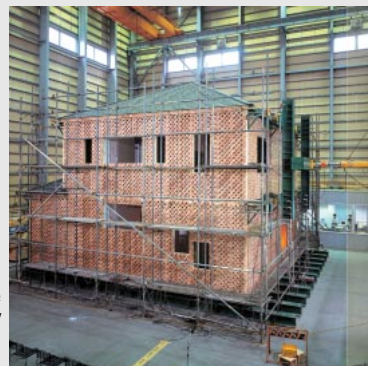
The Sumitomo Forestry Group conducts research and development (R&D) in a variety of fields, from rain forest regeneration to high-quality wooden building materials that are reliable and durable, in order to provide customers with homes that are comfortable and safe. Working mainly from the Tsukuba Research Institute, in recent years we have also initiated research into methods and technologies that lighten the burden on the environment, such as the recycling of construction waste and improving the longevity of homes. R&D investment across the Group totaled ¥843 million in fiscal 2002.

R&D in the Timber and Building Materials segment is conducted concerning technologies to employ natural materials, based on the principles of reducing formaldehyde and volatile organic compound (VOC) emissions, recycling construction waste, and durability. During the fiscal year under review, we focused on water-resistant MDF and LVL products, methods to made liquefied wood using recycled construction waste, and employing the “MIZDAS” wood seasoning system to ensure a stable supply of seasoned timber.

In the Housing and Housing-Related segment, R&D is focused on improving fundamental qualities of houses, such as their earthquake resistance, insulation efficiency and sound insulation, and is based on the concept of more streamlined construction methods and effective use of space. During the fiscal year under review, we conducted research on techniques to improve longevity, shock-absorbing houses using low-cost devices, and techniques applicable for universal home designs with attention to safety and functionality.

In the biotechnology field we are researching agricultural resources, as well as environmental clean-up and afforestation techniques. During the period under review, we continued with the tropical rainforest regeneration experiment in Indonesia, and conducted research into a system for producing compost recycled from the sediment culled from water purification plants, soil conditioners using housing waste, and a system for growing Japanese grasses on the rooftops of buildings.

RESEARCH AND DEVELOPMENT



Test structure at the Tsukuba Research Institute used to improve the ability of buildings to withstand earthquakes