MARKET OVERVIEW

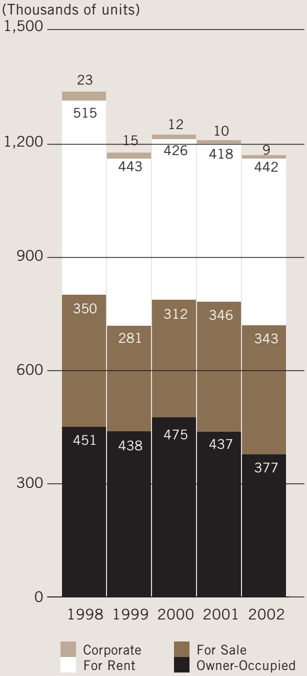
During fiscal 2002, ended March 31, 2002, new housing starts, the economic indicator that is most applicable to the performance trends of the Sumitomo Forestry Group, declined 3.3% from the previous fiscal year to 1,173,000 units. Of these, wooden housing starts fell 6.2% to 514,000 units, and owner-occupied homes, the source of the Group's core single-unit sales business, declined 13.9% to 377,000 units. This total is less than 60% of the 10-year peak of 636,000 units recorded in 1996. The Timber and Building Materials segment also experienced a downward turn in market conditions due to the decline of new housing starts, principally for owner-occupied homes.

The Japanese economy as a whole declined rapidly during the period under review, as the domestic production industry in Japan saw a downturn in exports and production following the worldwide economic slowdown, and capital investment dropped off. Individual consumption and domestic production was hit by the effects of the decline as well, unemployment was at a record high, the job market became increasingly tight, and consumer confidence remained low. Moreover, in the second half of the fiscal year under review, apprehension surrounding a possible deflationary spiral rendered conditions even graver.

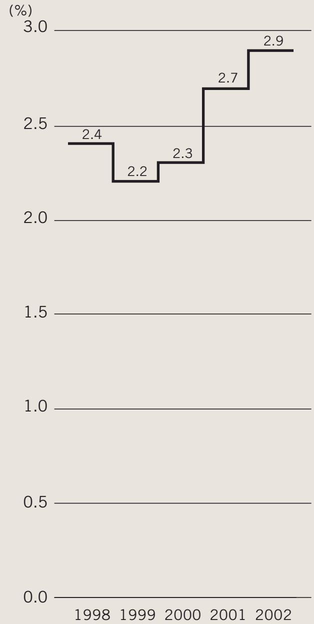
In the housing industry, the extension of a tax system to promote home buying and low interest rates for housing loans have increasing attracted first-time buyers, mainly in their 30s. However, many people in their 40s and 50s still hold apprehensions regarding future income and employment, and the market has remained slow for this age group.

The outlook for fiscal 2003, ending March 31, 2003, is mixed. Certain sectors in the United States and Asia seem to have hit bottom and are beginning to recover, and the economic outlook has finally begun to look slightly brighter. It will take some time before the Japanese economy manages a sustainable recovery, however, and customer confidence will not be easily or quickly regained. New housing starts in fiscal 2003 are expected to decline to 1,120,000 units, with owner-occupied homes projected at 360,000 units.

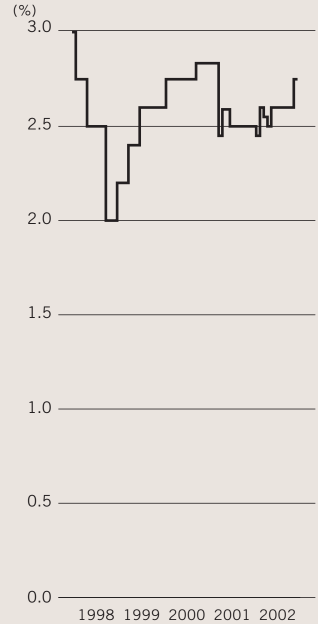
NUMBER OF NEW HOUSING STARTS IN JAPAN



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



HOUSING LOAN CORPORATION STANDARD LOAN RATIO



SCOPE OF CONSOLIDATION

Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries are primarily engaged in residential construction and related upstream and downstream businesses. During fiscal 2002, ended March 31, 2002, consolidated financial statements include the results of 52 consolidated subsidiaries, an increase of 1 company, and 3 companies accounted for by the equity method, an increase of 1 company from the previous fiscal year.

OVERVIEW

Total consolidated sales in fiscal 2002 declined 5.5% to ¥644.7 billion (US$4,884.3 million). Generally severe operating conditions depressed margins, with the result that operating income for the period under review dropped 81.0% to ¥3.0 billion (US$23.0 million), and net income dropped 93.3% to ¥465 million (US$3.5 million). Management maintained cash dividends per share of ¥10.00 (US$0.07).

Return on assets (ROA) declined 1.8 percentage points to 0.1%, and return on equity (ROE) fell 4.4 percentage points to 0.3%.

SALES AND OTHER INCOME

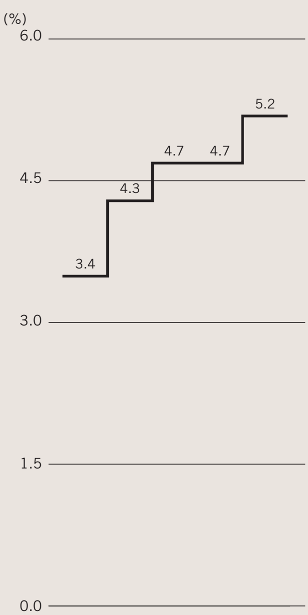
Net sales and contract revenues declined 5.5% to ¥644.7 billion (US$4,884.3 million).

By segment, sales and contract revenues in the Timber and Building Materials segment fell 5.5% to ¥253.1 billion (US$1,917.8 million), or 39.3% of total sales and contract revenues.

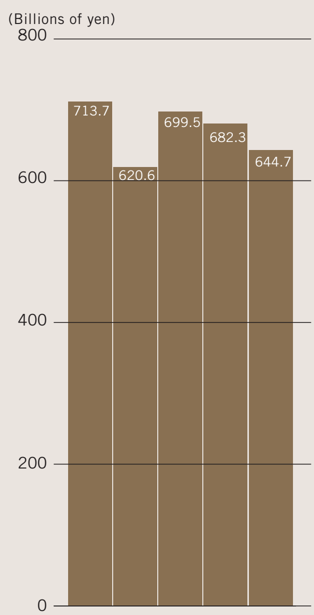
In the Housing segment, sales and contract revenues fell 5.8% to ¥381.5 billion (US$2,890.8 million). Orders for new detached homes declined 6.1% from the prior fiscal year to 10,685 units, and the number of housing completions decreased 6.0% from the prior fiscal year to 11,008 units. One bright spot in this segment was the specialized construction business, which handles all construction besides detached homes, where new construction orders increased 49.5% year-on-year to 1,075 units.

Sales in the Other segment rose 6.0% to ¥9.9 billion (US$75.6 million).

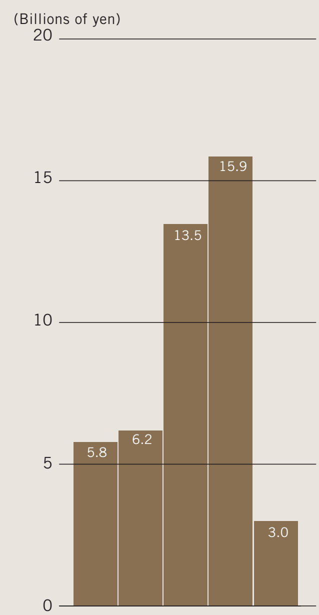
UNEMPLOYMENT RATE



NET SALES AND CONTRACT REVENUES



OPERATING PROFIT



NET INCOME

The cost of sales and contracts completed declined 5.1% to ¥535.2 billion (US$4,055.2 million). The ratio of cost of sales and contracts completed to net sales and contract revenues was virtually unchanged from the previous term at 83.0%. Selling, general and administrative (SG&A) expenses rose 4.2% to ¥106.3 billion (US$806.0 million). The ratio of SG&A expenses to net sales and contract revenues increased 1.5 percentage points to 16.5%.

Lower revenues combined with higher SG&A expenses resulted in a drop of 81.0% in operating profit to ¥3.0 billion (US$23.0 million), and the operating profit margin deteriorated 1.8 percentage points to 0.5%. Operating profit (before deducting unallocable corporate expenses) fell 63.3% in the Timber and Building Materials segment to ¥1.8 billion (US$14.2 million), dropped 70.2% in the Housing segment to ¥4.9 billion (US$37.5 million), and rose 11.7% in the Other segment to ¥579 million (US$4.3 million). The operating profit margin was 0.7% in the Timber and Building Materials segment, 1.3% in the Housing segment, and 3.2% in the Other segment.

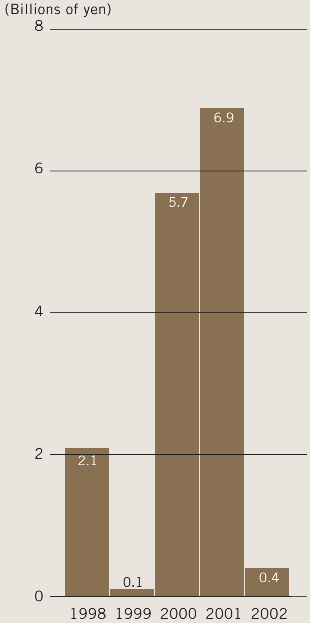
Interest expense dropped 44.2% from the prior period to ¥312 million (US$2.3 million), while interest and dividend income was down 35.8% to ¥428 million (US$3.2 million). Total other expenses were ¥330 million (US$2.5 million), down 90.1% from the same period last year.

Income before taxes and minority interests was ¥2.7 billion (US$20.5 million), down 78.6% from the prior year's figure of ¥12.6 billion. Net income was ¥465 million(US$3.5 million), down 93.3% from the prior year's figure of ¥6.9 billion. Net income per share of common stock was ¥2.64 (US$0.02), a decrease of 93.3% from the prior year.

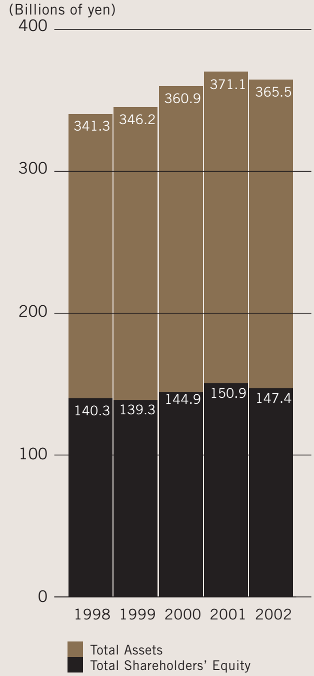
CASH FLOWS

Net cash provided by operating activities soared 399.6% year-on-year to ¥17.3 billion (US$131.3 million), owing mainly to a reduction in notes and accounts receivable, trade, of ¥25.1 billion (US$190.3 million) and a reduction of inventories of ¥14.1 billion (US$107.4 million).

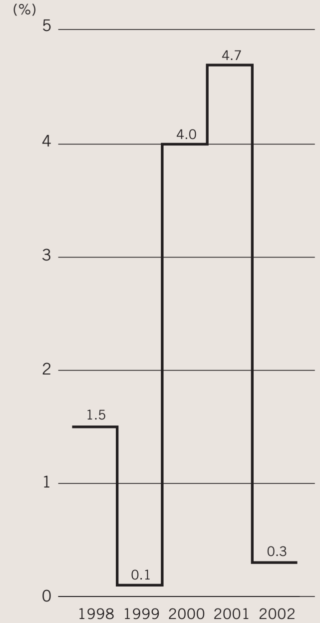
NET INCOME



TOTAL ASSETS/ TOTAL SHAREHOLDERS' EQUITY



ROE



Net cash used in investment activities rose to ¥16.4 billion (US$124.5 million), compared with the prior year's figure of ¥1.9 billion, due to capital investment in Nelson Pine Industries (NPIL) for laminated veneer lumber (LVL) production lines.

Net cash used in financing activities dropped 30.0% to ¥9.7 billion (US$73.6 million). The largest cash expenditure in this category was ¥12.7 billion (US$96.7 million) in repayments of long-term debt.

Total cash and cash equivalents at the end of the year was ¥38.8 billion (US$294.4 million), down 18.1% from the same period last year.

FINANCIAL POSITION

Total current assets declined 2.9% to ¥250.9 billion (US$1,901.2 million), owing primarily to lower levels of cash and accounts receivable, and smaller inventories. Total inventories dropped 29.0% during the period under review to ¥33.0 billion (US$250.1 million). Total assets fell 1.5% to ¥365.5 billion (US$2,769.1 million).

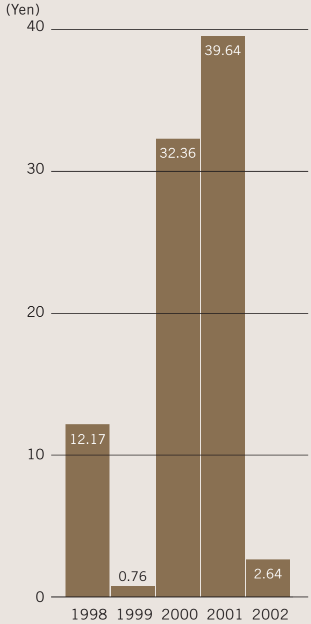
Total current liabilities declined 3.4% to ¥190.4 billion (US$1,443.0 million). Total long-term liabilities rose 21.1% during the period under review to ¥27.5 billion (US$208.7 million). Accordingly, total liabilities edged down 0.9% to ¥218.0 billion (US$1,651.7 million).

Net working capital declined 1.4% during the period to ¥60.4 billion (US$458.1 million). The current ratio edged up 0.7 percentage point to 131.8%.

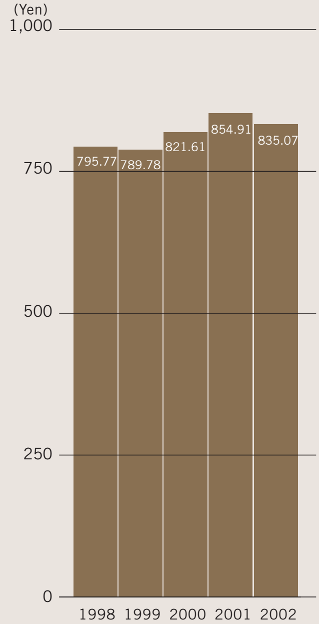
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt and long-term debt) declined 26.1% to ¥18.1 billion (US$137.3 million).

Total shareholder's equity decreased 2.3% to ¥147.4 billion (US$1,116.9 million). The equity ratio edged down 0.4 percentage point to 40.3%, compared with 40.7% at the end of fiscal 2001.

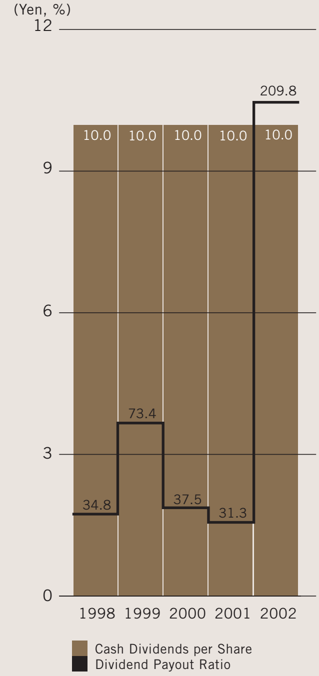
NET INCOME PER SHARE



SHAREHOLDERS' EQUITY PER SHARE



CASH DIVIDENDS PER SHARE/DIVIDEND PAYOUT RATIO



CONSOLIDATED BALANCE SHEETS
Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2002**	2001	**2002**
Current assets:			
Cash and time deposits (Note 11)	**¥ 31,004**	¥ 42,663	**$ 234,878**
Marketable securities (Note 5)	**15,998**	6,672	**121,196**
Receivables—			
Notes and accounts, trade	**88,784**	102,373	**672,606**
Loans and other	**74,406**	52,308	**563,681**
Inventories—			
Finished goods, logs and lumber	**12,931**	16,708	**97,962**
Developed land and housing for sale	**5,877**	5,892	**44,522**
Land and housing projects in progress	**14,217**	23,885	**107,704**
Deferred income taxes (Note 8)	**3,689**	3,745	**27,946**
Other current assets	**4,495**	4,652	**34,053**
Allowance for doubtful accounts	**(445)**	(368)	**(3,371)**
Total current assets	**250,959**	258,532	**1,901,204**
Property, plant and equipment, at cost less accumulated depreciation (Note 7):			
Land	**25,436**	25,731	**192,696**
Buildings and structure	**32,947**	31,356	**249,598**
Machinery and equipment	**35,972**	31,114	**272,515**
Timber (Note 6)	**10,953**	10,905	**82,977**
Construction in progress	**4,320**	2,968	**32,727**
	109,630	102,076	**830,530**
Less accumulated depreciation	**(36,915)**	(33,107)	**(279,659)**
Net property, plant and equipment	**72,714**	68,969	**550,863**
Intangible assets, net of amortization:			
Excess of investment cost over net equity of consolidated subsidiaries acquired	**1,427**	—	**10,810**
Other intangible assets	**5,415**	4,419	**41,022**
Total intangible assets	**6,843**	4,419	**51,840**
Investment and other assets:			
Investment securities (Note 5)	**21,412**	24,098	**162,212**
Long-term loans and receivables	**4,165**	5,971	**31,553**
Deferred income taxes (Note 8)	**1,628**	1,057	**12,333**
Other assets	**8,716**	8,744	**66,030**
Allowance for doubtful accounts	**(908)**	(690)	**(6,878)**
Total investments and other assets	**35,013**	39,181	**265,250**
	¥365,531	¥371,102	**$2,769,174**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 4) 2002
Current liabilities:			
Payables—			
Notes and accounts, trade	**¥126,728**	¥111,892	**$ 960,060**
Other	**6,483**	7,411	**49,113**
Short-term debt (Note 7)	**7,848**	8,492	**59,454**
Current portion of long-term debt (Note 7)	**760**	10,365	**5,757**
Advances received from customers	**34,561**	39,616	**261,825**
Accrued income taxes	**627**	6,057	**4,750**
Accrued employees' bonuses	**6,931**	7,359	**52,507**
Other current liabilities	**6,541**	6,017	**49,553**
Total current liabilities	**190,482**	197,213	**1,443,045**
Long-term liabilities:			
Long-term debt (Note 7)	**9,515**	5,660	**72,083**
Deferred income taxes (Note 8)	**315**	2,839	**2,386**
Accrued employees' retirement benefits (Note 16)	**7,470**	4,596	**56,590**
Other	**10,253**	9,648	**77,674**
Total long-term liabilities	**27,555**	22,744	**208,750**
Minority interest in consolidated subsidiaries	**53**	165	**401**
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	**209,636**
Capital surplus	**25,650**	25,650	**194,318**
Retained earnings	**94,538**	96,861	**716,196**
Unrealized gain on available-for-sale securities	**2,369**	4,083	**17,946**
Foreign currency translation adjustments	**(2,760)**	(3,287)	**(20,909)**
Treasury stock (43,551 shares in 2002 and 1,136 shares in 2001)	**(30)**	(0)	**(227)**
Total shareholders' equity	**147,440**	150,979	**1,116,969**
	¥365,531	¥371,102	**$2,769,174**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2001	**2002**
Sales:			
Net sales	**¥289,750**	¥303,777	**$2,195,075**
Contract revenues	**354,979**	378,598	**2,689,234**
Total	**644,730**	682,375	**4,884,318**
Cost of sales:			
Cost of sales	**267,521**	279,416	**2,026,674**
Cost of contracts completed	**267,771**	284,894	**2,028,568**
Total	**535,293**	564,310	**4,055,250**
Gross profit	**109,437**	118,064	**829,068**
Selling, general and administrative expenses (Note 10)	**106,397**	102,065	**806,037**
Operating income	**3,040**	15,999	**23,030**
Other income (expenses):			
Interest and dividend income	**428**	667	**3,242**
Interest expense	**(312)**	(559)	**(2,363)**
Loss on devaluation of investment securities	**(633)**	(470)	**(4,795)**
Gain on securities contributed to employee retirement benefit trust	**—**	7,820	**—**
Loss on transaction difference of new accounting standard for retirement benefit	**—**	(9,997)	**—**
Loss on devaluation of real estate for sale and other assets	**(375)**	(2,345)	**(2,840)**
Other, net (Note 9)	**561**	1,557	**4,250**
Total	**(330)**	(3,328)	**(2,500)**
Income before income taxes and minority interests	**2,709**	12,670	**20,522**
Income taxes (Note 8):			
Current	**3,966**	9,472	**30,045**
Deferred	**(1,832)**	(3,774)	**(13,878)**
Total	**2,134**	5,697	**16,166**
Minority interest	**109**	(21)	**825**
Net income	**¥ 465**	¥ 6,994	**$ 3,522**

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income	**¥ 2.64**	¥39.64	**$0.02**
Cash dividends	**10.00**	10.00	**0.07**

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, 2002 and 2001

		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, 2000	176,381,182	¥27,660	¥25,490	¥91,764	¥ —	¥ —	¥ (1)
Decrease due to change in consolidation of subsidiaries	—	—	—	(73)	—	—	—
Stock issued for summary permutation	222,699	11	159	—	—	—	—
Net income	—	—	—	6,994	—	—	—
Unrealized gain on available-for-sale securities, less applicable tax	—	—	—	—	4,083	—	—
Changes in foreign currency translation	—	—	—	—	—	(3,287)	—
Cash dividends (¥10.00 per share)	—	—	—	(1,763)	—	—	—
Bonuses to directors	—	—	—	(60)	—	—	—
Treasury stock sold, net (2,276 shares)	—	—	—	—	—	—	0
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)**	**—**	**—**	**—**
Amount of decrease due to merging of subsidiaries	**—**	**—**	**—**	**(913)**	**—**	**—**	**—**
Net income	**—**	**—**	**—**	**465**	**—**	**—**	**—**
Unrealized gain on available-for-sale securities, less applicable tax	**—**	**—**	**—**	**—**	**(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)**

	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, 2001	$209,636	$194,318	$733,795	$30,931	$(24,901)	$ (0)
Decrease due to change in consolidation of subsidiaries	**—**	**—**	**(325)**	**—**	**—**	**—**
Decrease due to change in affiliates using the equity method	**—**	**—**	**(7)**	**—**	**—**	**—**
Amount of decrease due to merging of subsidiaries	**—**	**—**	**(6,916)**	**—**	**—**	**—**
Net income	**—**	**—**	**3,522**	**—**	**—**	**—**
Unrealized gain on available-for-sale securities, less applicable tax	**—**	**—**	**—**	**(12,977)**	**—**	**—**
Changes in foreign currency translation	**—**	**—**	**—**	**—**	**3,984**	**—**
Cash dividends ($0.07 per share)	**—**	**—**	**(13,378)**	**—**	**—**	**—**
Bonuses to directors	**—**	**—**	**(477)**	**—**	**—**	**—**
Treasury stock acquired, net (42,415 shares)	**—**	**—**	**—**	**—**	**—**	**(219)**
Balance as at March 31, 2002	**$209,636**	**$194,318**	**$716,196**	**$17,946**	**$(20,909)**	**$(227)**

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, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2001	**2002**
Cash flows from operating activities:			
Income before income taxes	**¥ 2,709**	¥ 12,670	**$ 20,522**
Adjustments—			
Depreciation and amortization	**5,289**	4,551	**40,068**
Provision for (reversal of) doubtful account	**267**	(319)	**2,022**
Provision for (reversal of) severance indemnities, less payments	**2,720**	1,574	**20,606**
Interest and dividend income	**(428)**	(667)	**(3,242)**
Interest expense	**312**	559	**2,363**
Equity in earnings of affiliates	**(14)**	194	**(106)**
Losses on devaluation of marketable securities and investment securities	**633**	470	**4,795**
Losses (gains) on sales of marketable securities and investment securities, net	**(43)**	0	**(325)**
Losses (gains) on disposal of fixed assets, net	**(6)**	15	**(45)**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	**25,125**	(8,472)	**190,340**
Inventories	**14,179**	447	**107,416**
Other current assets	**(29,898)**	(10,682)	**(226,500)**
Notes and accounts payable, trade	**11,463**	14,293	**86,840**
Advances received from customers	**(4,148)**	(695)	**(31,424)**
Other current liabilities	**(686)**	(5,347)	**(5,196)**
Other	**551**	1,025	**4,174**
	28,025	9,618	**212,310**
Interest and dividend income received	**431**	718	**3,265**
Interest paid	**(326)**	(561)	**(2,469)**
Income taxes paid, net	**(10,798)**	(6,305)	**(81,803)**
Net cash provided by operating activities	**17,332**	3,468	**131,303**
Cash flows from investment activities:			
Payments for purchases of marketable securities	**(9,999)**	—	**(75,750)**
Proceeds from sales of marketable securities	**3,236**	2,393	**24,515**
Payments for purchases of fixed assets	**(11,433)**	(8,970)	**(86,613)**
Proceeds from sales of fixed assets	**4,925**	5,208	**37,310**
Payments for purchases of intangible assets	**(2,224)**	(1,880)	**(16,848)**
Payments for purchases of investment securities	**(1,316)**	(862)	**(9,969)**
Proceeds from sales of investment securities	**343**	58	**2,598**
Payments for long-term loans receivable	**(53)**	(279)	**(401)**
Repayments of long-term loans receivable	**1,351**	1,313	**10,234**
Decrease (increase) in short-term loans receivable	**(119)**	1,704	**(901)**
Payment for additional investment in consolidated subsidiary	**(1,738)**	—	**(13,166)**
Other	**588**	(645)	**4,454**
Net cash used in investment activities	**(16,439)**	(1,960)	**(124,537)**
Cash flows from financing activities:			
Proceeds from long-term debt	**5,988**	195	**45,363**
Repayments of long-term debt	**(12,768)**	(4,376)	**(96,727)**
Decrease (increase) in short-term borrowings	**(1,134)**	(7,916)	**(8,590)**
Dividends paid	**(1,772)**	(1,763)	**(13,424)**
Other	**(29)**	(11)	**(219)**
Net cash used in financing activities	**(9,716)**	(13,873)	**(73,606)**
Effect of exchange rate changes on cash and cash equivalents	**(53)**	8	**(401)**
Net increase (decrease) in cash and cash equivalents	**(8,877)**	(12,356)	**(67,250)**
Cash and cash equivalents at the beginning of the year	**47,476**	59,916	**359,666**
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	**273**	—	**2,068**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	**—**	(82)	**—**
Cash and cash equivalents at the end of the year	**¥ 38,873**	¥ 47,476	**$ 294,492**

See accompanying notes to consolidated financial statements.

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) LABOR COSTS FOR CONSTRUCTION

Until the year ended March 31, 2000, labor costs incurred in relation to ordered construction were recognized as selling, general and administrative expenses. Effective April 1, 2000, the Company has changed the cost allocation method to charge 70% of these costs to cost of construction. This change was made to use more precise cost management in the analysis of business content. Of the work performed by production managers, approximately 70% is related to expenses for construction projects of homes. As a result, the change was made for more appropriate calculations of completed construction costs and income and expenses during the fiscal year. As a result of this change, cost of completed construction increased by ¥2,548 million and selling, general and administrative expenses decreased by ¥2,929 million.

(B) SALES OF THE CONSTRUCTION MATERIALS

Until the year ended March 31, 2000, the Company accounted for materials such as precut timber and residential equipment (built-in kitchens, etc.), which were clear to have been used for the Company's ordered construction, as material costs under "yusho-shikyu" (materials supplied to subcontractors at cost for processing and subsequently repurchased at cost plus upon completion) and rest materials were recognized as sales to building firms. Effective April 1, 2000, the Company has changed the policy to recognize "yusho-shikyu" as long as these materials are controllable by the respective construction sites in the Company's computer information system. This change was made to enable individual management of production efforts for other material transactions through the Company's computer information system and to more closely reflect actual management of completed construction costs. As a result of this change, sales, cost of sales and cost of completed construction were decreased by ¥60,586 million, ¥53,416 million and ¥6,759 million, respectively. Furthermore, operating profit, and profit before taxes were decreased by ¥410 million.

(C) 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.

(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

Until the year ended March 31, 2000, current receivables and payables in foreign currencies are revalued at year-end using current exchange rates, whereas long-term receivables and payables in foreign currencies are not revalued.

Effective April 1, 2000, the Companies adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, current and long-term receivables and payables are translated into Japanese yen at the exchange rates at the balance sheet date. Foreign currency translation adjustments are recorded as a component of shareholders' equity from the fiscal year ended March 31, 2001, in accordance with revisions to the accounting standard for foreign currency transactions. In prior years, foreign currency translation adjustments were recorded on the balance sheet as a component of assets or liabilities. The adoption of revised accounting standards for foreign currency transactions did not have a material effect on the accompanying consolidated financial statements.

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.

Until the year ended March 31, 2000, the allowance for doubtful accounts represents the maximum amount permitted for tax purpose and an additional allowance based on an evaluation of the collectibility of individual receivables.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for financial instruments, including allowance for doubtful accounts.

Adoption of the new accounting standard for financial instruments relating to the allowance for doubtful accounts increased income before income taxes by ¥241 million for the year ended March 31, 2001.

(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 position assets at year-end.

Actuarial gains and losses will be amortized from next year over 5 years, which is within the estimated average remaining service years of employees, using the straight-line method.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for severance indemnity benefits and pension plans, which requires the Company and domestic consolidated subsidiaries to accrue employees' severance indemnity benefits and pension plans at an amount calculated based on the retirement benefit obligation and the fair value of the plan assets as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost.

As a result, compared with the prior method, net periodic benefit cost increased by ¥648 million and income before income taxes decreased by ¥2,824 million for the year ended March 31, 2001.

(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

Until the year ended March 31, 2000, marketable securities in both current and long-term investments, except for equity investments in unconsolidated subsidiaries and affiliates, are stated at the lower of moving average cost or market value. Other securities are stated at moving average cost.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for financial instruments, including securities in both current and long-term investments.

Adoption of the new accounting standard for financial instruments relating to securities increased income before income taxes by ¥576 million for the year ended March 31, 2001.

The standard requires all applicable securities to be 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 difference 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) SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS

Severance indemnity regulations of the Company and domestic consolidated subsidiaries, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service, position in the respective companies and termination circumstances. The regulations provide for additional benefits upon retirement at the age limit, death or for certain defined reasons.

Voluntary severance results in a reduction of benefits according to a vesting schedule based on the number of years of service, with full vesting after 20 years of service. Benefits become fully vested in the case of involuntary termination.

The Company and certain consolidated subsidiaries have adopted non-contributory funded pension plans to provide for the benefit payments established under the Companies' regulations for their employees estimated to continue to work until the retirement age limit. Under the pension plans, the terminating employee may elect either a lump-sum payment or annuity payments.

The Company and domestic consolidated subsidiaries accrue employees' severance indemnity benefits and pension plans at an amount calculated based on the retirement benefits obligation and the fair value of the plan assets as adjusted for the unrecognized actuarial gain or loss.

(N) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) 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.

(S) RECLASSIFICATIONS
Certain accounts in the consolidated financial statements for the year ended March 31, 2001 have been reclassified to conform to presentation in 2002.

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 ¥132=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2002. 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. MARKETABLE SECURITIES AND INVESTMENT SECURITIES
The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2002 were as follows;

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	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			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities ...	**$117,613**	**$45,621**	**$(14,598)**	**$148,643**
Debt securities ...	—	—	—	—
Held-to-maturity:				
Debt securities ...	**124,212**	—	—	**124,212**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2002		**2002**	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due within one year	**¥—**	**¥15,998**	**$—**	**$121,196**
Due after one year through five years	—	**398**	—	**3,015**
	¥—	**¥16,396**	**$—**	**$124,212**

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, 2002 and 2001 comprised:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Standing timber:			
Mature timber	¥10,087	¥ 9,904	$76,416
Growing timber	866	1,001	6,560
	10,953	10,905	82,977
Land	477	477	3,613
	¥11,431	¥11,382	$86,598

The timberland accounts at March 31, 2002 and 2001 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
2002	2001	2002
¥268	¥268	$2,030

7. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2002 generally represented short-term borrowings which bore interest of 0.92% per annum. Long-term debt at March 31, 2002, is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Loans, principally from banks and insurance companies, due 2003 to 2007 with interest of 4.66%:		
Secured	¥ 6,895	$52,234
Unsecured	1,680	12,727
Unsecured floating rate Euro-yen bonds:		
LIBOR plus 0.68 basis points, due 2003	1,200	9,090
LIBOR plus 0.92 basis points, due 2003	500	3,787
	10,276	77,848
Portion due within one year	760	5,757
	¥ 9,515	$72,083

The following assets were pledged to secure bank loans and long-term debt at March 31, 2002:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,533	$11,613
Buildings and structures	2,637	19,977
Machinery and equipment	7,143	54,113
Timberland	1,862	14,106
	¥13,177	$99,825

The aggregate annual maturities of long-term debt at March 31, 2002 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥ 760	$ 5,757
2004	2,525	19,128
2005	6,547	49,598
2006	265	2,007
2007	—	—
Thereafter	176	1,333
	¥10,276	$77,848

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 rates are approximately 42.0% for both 2002 and 2001.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate at March 31, 2002 is as follows:

Statutory tax rate	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, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Accrued employees' bonuses	¥ 1,858	$14,075
Provision for guarantee for after-cost of construction	203	1,537
Advances received	418	3,166
Accrued enterprise taxes	37	280
Devaluation of real estate for sale and other assets	1,031	7,810
Pension and severance costs	6,165	46,704
Unrealized intercompany profit	308	2,333
Tax loss carryforwards	3,887	29,446
Other	2,111	15,992
Gross deferred tax assets	16,022	121,378
Valuation allowance	(3,713)	(28,128)
Total deferred tax assets	12,309	93,250
Deferred tax liabilities:		
Deferred gains on sales of property	(1,145)	(8,674)
Unrealized gain on available-for-sale securities	(1,716)	(13,000)
Gain on securities contributed to employee retirement benefit trust	(3,284)	(24,878)
Other	(1,159)	(8,780)
Gross deferred tax liabilities	(7,306)	(55,348)
Net deferred tax assets	¥ 5,002	$37,893

Net deferred tax assets are included in the consolidated balance sheets at March 31, 2002 as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets—Deferred income taxes	¥3,689	$27,946
Investments and long-term receivables—Other investments	1,628	12,333
Current liabilities—Other	(0)	(0)
Long-term liabilities—Deferred income taxes	(315)	(2,386)
Net deferred tax assets	¥5,002	$37,893

9. OTHER GAINS (LOSSES), NET

Other gains (losses), net, for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Gain on sales of property, plant and equipment	¥ 110	¥ 367	$ 833
Gain on sales of investment securities	43	—	325
Loss on sales of property, plant and equipment	—	(41)	—
Loss on sales of investment securities	—	(6)	—
Provision of retirement allowance for directors	(542)	—	(4,106)
Other, net	950	1,237	7,196
	¥ 561	¥1,557	$ 4,250

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2002 and 2001 were ¥1,000 million (US$7,575 thousand) and ¥1,144 million, respectively.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2002 and 2001 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and time deposits	¥31,004	¥42,663	$234,878
Short-term investments	7,997	5,452	60,583
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(129)	(639)	(977)
Cash and cash equivalents	¥38,873	¥47,476	$294,492

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 per 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, 2002 and 2001, which are included in retained earnings on the accompanying consolidated balance sheets, are ¥2,857 million (US$21,643 thousand) and ¥2,764 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, 2002, the total amount available for dividends from the Company was ¥84,411 million (US$639,477 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, 2002 and 2001 were ¥5,710 million (US$43,257 thousand) and ¥5,178 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
	2002	2001	**2002**
Buildings and structures	**¥ 14,149**	¥ 13,357	**$107,189**
Machinery and equipment	**8,937**	8,642	**67,704**
Other	**213**	236	**1,613**
Accumulated depreciation	**(12,022)**	(10,844)	**(91,075)**
	¥ 11,277	¥ 11,391	**$ 85,431**

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Depreciation	**¥5,340**	¥4,914	**$40,454**
Interest expenses	**282**	215	**2,136**

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, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Current obligation	**¥ 4,706**	¥ 4,557	**$35,651**
Long-term obligation	**6,826**	7,040	**51,712**
Present value of lease payments	**¥11,532**	¥11,597	**$87,363**

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2002 and 2001 are ¥592 million (US$4,484 thousand) and ¥557 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, 2002 and 2001, comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Buildings and structures	**¥ 98**	¥ 5	**$ 742**
Machinery and equipment	**1,467**	1,927	**11,113**
Other	**6**	24	**45**
Accumulated depreciation	**(974)**	(1,208)	**(7,378)**
	¥ 598	¥ 748	**$ 4,530**

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Depreciation	**¥277**	¥363	**$2,098**
Interest income	**131**	87	**992**

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, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Current obligation	**¥ 413**	¥ 303	**$3,128**
Long-term obligation	**822**	822	**6,227**
Present value of lease receipts	**¥1,235**	¥1,126	**$9,356**

14. CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2002 for loans guaranteed amounted to ¥4,297 million (US$32,553 thousand), and for notes discounted and endorsed in the ordinary course of business amounted to ¥82 million (US$621 thousand).

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 interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Companies adopted a new accounting standard for financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

The adoption of the new accounting standards for financial instruments did not have a material effect on the accompanying consolidated financial statements.

16. SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS

The Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all of their employees.

Certain foreign consolidated subsidiaries have local pension plans covering their employees.

Employees who retire from the Company and its certain consolidated subsidiaries are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

The liability for employees' retirement benefits at March 31, 2002 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥(44,072)**	**$(333,878)**
Fair value of plan assets	**27,349**	**207,189**
Unrecognized transitional obligation	**—**	**—**
Unrecognized actuarial loss	**9,252**	**70,090**
Unrecognized prior service cost	**—**	**—**
Prepaid pension cost	**—**	**—**
Net liability for retirement benefits	**¥ (7,470)**	**$ (56,590)**

The components of net periodic benefit costs for the year ended March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	**¥3,454**	**$26,166**
Interest cost	**1,500**	**11,363**
Expected return on plan assets	**(894)**	**(6,772)**
Amortization of transitional obligation	**1,345**	**10,189**
Recognized actuarial loss	**—**	**—**
Amortization of prior service cost	**—**	**—**
Net periodic benefit costs	**¥5,405**	**$40,946**

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used for the year ended March 31, 2002 are set forth as follows:

Discount rate	**3.5%**
Expected rate of return on plan assets	**3.5%**
Recognition period of actuarial gain/loss	**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, 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, 2001	Millions of yen					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥267,937	¥405,012	¥ 9,425	¥682,375	¥ —	¥682,375
Intersegment transfers	11,873	137	7,553	19,565	(19,565)	—
Total	279,811	405,150	16,978	701,940	(19,565)	682,375
Operating expenses	274,682	388,519	16,459	679,661	(13,285)	666,376
Operating profit	¥ 5,128	¥ 16,631	¥ 519	¥ 22,278	¥ (6,279)	¥ 15,999
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥149,010	¥136,979	¥56,811	¥342,801	¥ 28,301	¥371,102
Depreciation and amortization	1,828	1,715	1,026	4,570	(19)	4,551
Capital investment	2,499	3,145	1,040	6,685	(95)	6,590

Year ended March 31, 2002	Thousands of U.S. dollars					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	$1,917,833	$2,890,818	$ 75,659	$4,884,318	$ —	$4,884,318
Intersegment transfers	134,098	2,946	61,083	198,136	(198,136)	—
Total	2,051,939	2,893,772	136,742	5,082,462	(198,136)	4,884,318
Operating expenses	2,037,674	2,856,181	132,348	5,026,219	(164,924)	4,861,287
Operating profit	$ 14,257	$ 37,583	$ 4,386	$ 56,242	$ (33,212)	$ 23,030
Identifiable assets, depreciation and capital investment:						
Identifiable assets	$1,078,992	$1,139,075	$320,742	$2,538,818	$ 230,356	$2,769,174
Depreciation and amortization	15,916	17,022	7,393	40,340	(265)	40,068
Capital investment	46,068	23,356	8,060	77,484	(787)	76,696

Notes: (Year ended March 31, 2001)

1. Operating expenses in the housing segment were decreased by ¥381 million due to a change in accounting method for labor costs for construction in the term under review as stated in Note 3 (1) (A).
2. Sales and contract revenue in the timber and building materials segment were decreased by ¥70,231 million due to a change in accounting method for sales of the construction materials in the term under review as stated in Note 3 (1) (B). Operating expenses in the timber and building materials segment and housing segment were decreased by ¥63,061 million and ¥6,759 million, respectively. Elimination and/or corporate for intersegment transfers were ¥9,645 million for both sales and contract revenues and operating expenses.
3. As stated in Note 16, the Company adopted new accounting standards for retirement benefits from the term under review. As a result, operating expenses in the timber and building materials segment and the housing segment increased ¥70 million and ¥566 million, respectively, while operating expenses in the other segment decreased ¥3 million.
4. As stated in Note 3 (2) (D) (I), the Company adopted new accounting standards for financial instruments from the term under review. As a result, operating expenses in the timber and building materials segment, housing segment and others segment were decreased by ¥231 million, ¥0 million and ¥2 million, respectively.

(Year ended March 31, 2002)

5. As stated in Note 3 (1) (C), 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.

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.

18. RELATED PARTY TRANSACTIONS

Transactions with a director of the Company ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Sales	**¥—**	¥23	**$—**
Accounts receivable	**—**	15	**—**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Sumitomo Forestry Co., Ltd.

We have audited the consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, 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 consistently applied during the period, except for the changes, with which we concur, in the labor cost for construction, sales of the construction materials and retirement benefits to directors and corporate auditors as discussed Note 3.(1).

As described in Notes 3, 15 and 16 to the consolidated financial statements, Sumitomo Forestry Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits, financial instruments and the revised accounting standard for foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 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.

Tokyo, Japan
June 27, 2002

See Note 2 to the consolidated financial statements, which explains the basis of preparing the consolidated financial statements of Sumitomo Forestry Co., Ltd. under Japanese accounting principles and practices.

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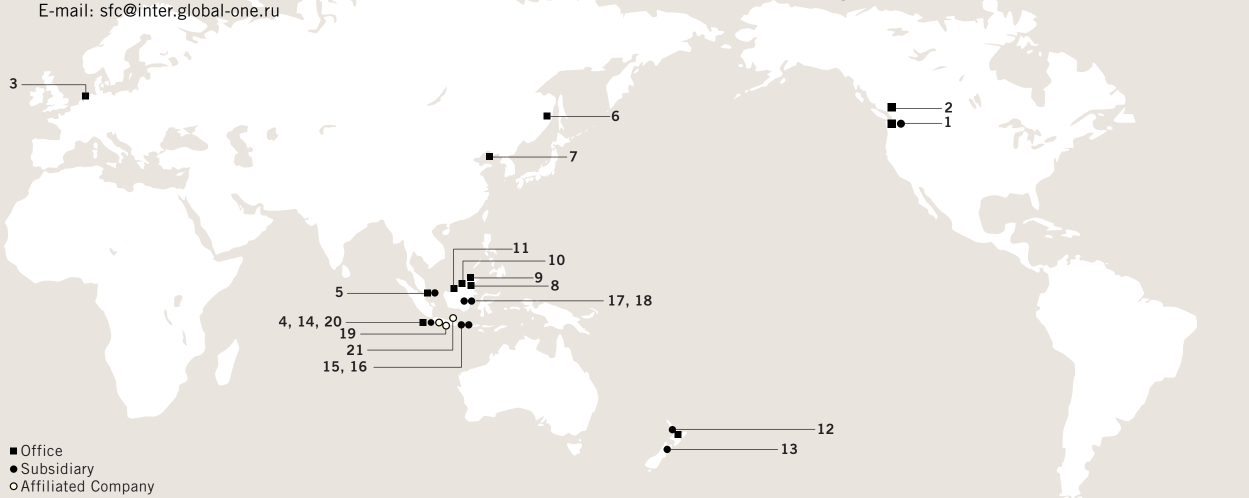
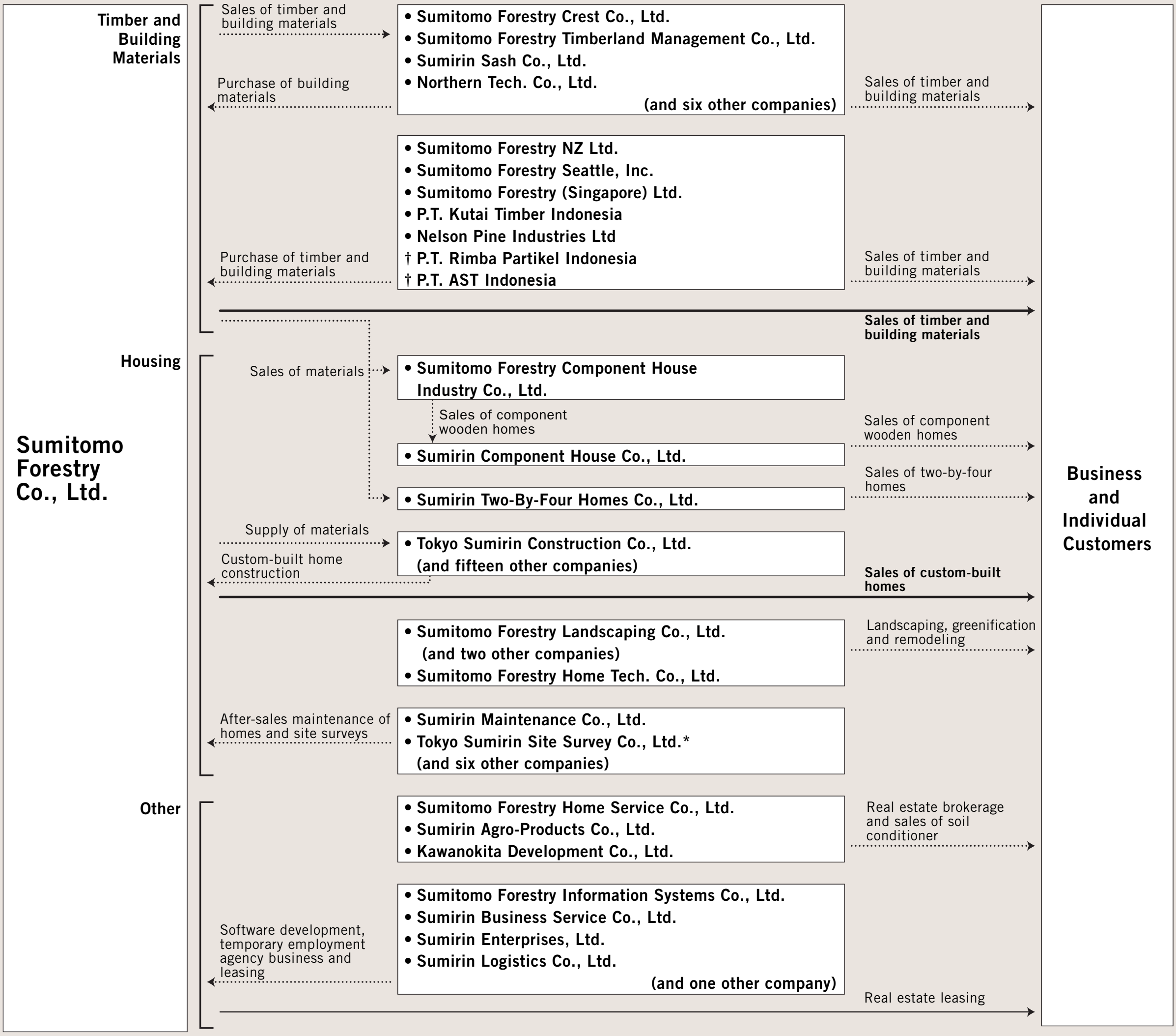
(As of July 1, 2002)





• Consolidated Subsidiary
† Equity-method Affiliate
* Seven companies and the soil improvement divisions of two construction subsidiaries were merged in April 2002 and established as Kanto Sumirin Base Techno Co., Ltd., Tokai Sumirin Base Techno Co., Ltd. and Kinki Sumirin Base Techno Co., Ltd.

(As of March 31, 2002)

ORGANIZATION CHART

- **Board of Directors**
  - **President**
    - Corporate Planning Division
    - General Administrative Division
    - Personnel Division
    - Finance & Accounting Division
    - Information Systems Division
    - Audit Division
    - Customer Service Division
    - Intellectual Property Division
    - Tsukuba Research Institute
    - **Forestry & Environment Headquarters**
      - Forest Management Division
      - Environmental Business Promotion Division
      - Green Environmental R&D Division
    - **Business Headquarters**
      - Business Administration Division
      - First Business Division
      - Second Business Division
      - Products & Marketing Development Division
      - INOS Group Project Division
      - International Business Division
      - 8 Branches and 9 Sales Offices
    - **Housing Headquarters**
      - Housing Strategy Division
      - Product Development Division
      - Technology & Production Division
      - Building Materials Procurement Division
      - Warranty & Customer Information Division
      - Human Resources Development Division
      - Safety Control Division
      - 3 Regional Divisions, 54 Branches, 49 Sales Offices, and 333 Model House Exhibit Centers
    - **Collective Housing Headquarters**
      - Business Promotion Division
      - 3 Branches and 1 Sales Office

(As of July 1, 2002)

CORPORATE DATA

Founded
1691

Incorporated
1948

Stock Exchange Listings
Tokyo, Osaka

Paid-in Capital
¥27,672 million

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Number of Shareholders
13,518

(As of March 31, 2002)

(Front) Ryu Yano
(Back, from left)
Kanji Sugano,
Akihiro Ueda,
Yukihiro Goto

DIRECTORS AND AUDITORS

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

Statutory Auditors
Yoshihiro Kado
Masahiro Kawachi
Toshio Inoue
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
Junji Ikai

Executive Officers
Joji Itoh
Hideo Kanai
Masayuki Kato
Shoichi Takahashi
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(As of June 27, 2002)

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