



SUMITOMO FORESTRY CO., LTD.

Ensuring Forests Remain a Resource for Generations to Come

ANNUAL REPORT 2001

Year ended March 31, 2001

FINANCIAL HIGHLIGHTS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

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

	Yen					U.S. dollars
Net income per share	¥39.64	¥32.36	¥ 0.76	¥12.17	¥74.60	\$0.31
Cash dividends per share	10.00	10.00	10.00	10.00	12.00	0.08

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

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Cover: Company forest in Wakayama

Since its establishment

in 1691, Sumitomo Forestry Co., Ltd. has been engaged in a variety of business fields focused on wood

and wood products. Our mission is to give people more opportunities to benefit from the natural as-

pects of wood, a material whose inherent beauty, solidity and familiarity provide a sense of well-being

and security wherever it is used. Sumitomo Forestry contributes to the enhancement of people's lives

by providing a broad array of product choices that make the most of the unique qualities of wood.

*Our mission is to
expand the possibili-
ties of wood.*



*Review of Previous
Fiscal Year*

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

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

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

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

Company forest in
Kyushu (Spring)



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

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

*Sumitomo Forestry
serves society by
providing customers
with a living environ-
ment that brings them
peace and comfort.*



*Outlook for the Current
Fiscal Year*

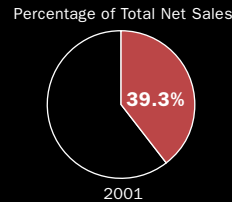
In the current fiscal year, the market environment is projected to grow increasingly fierce as a heightened sense of impending economic slowdown is expected to result in a decrease in domestic housing starts to roughly 1,150,000 units. Despite this, we will press forward with current plans in the timber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

Ryu Yano
President

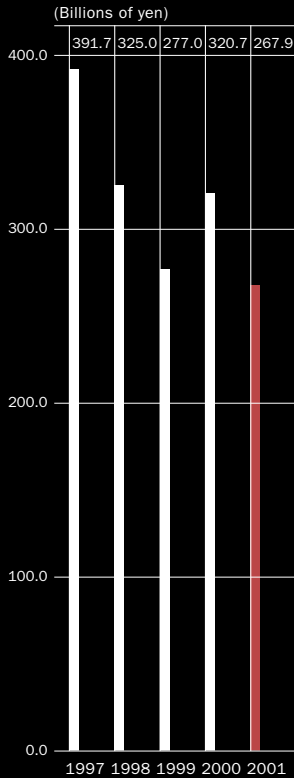
REVIEW OF OPERATIONS

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

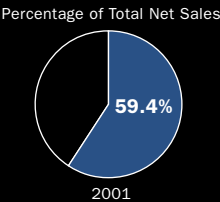
**TIMBER AND
BUILDING MATERIALS**



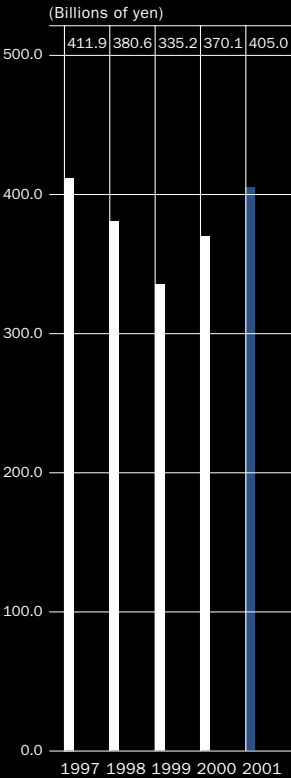
Net Sales



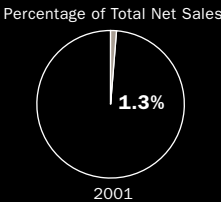
HOUSING



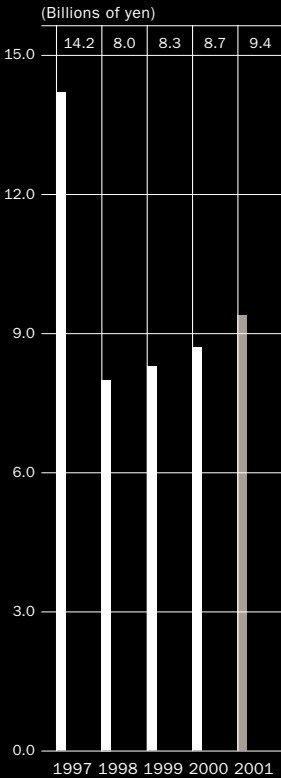
Net Sales



OTHER



Net Sales



木材・建材事業

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

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

Timber and Building Materials—Distribution

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

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



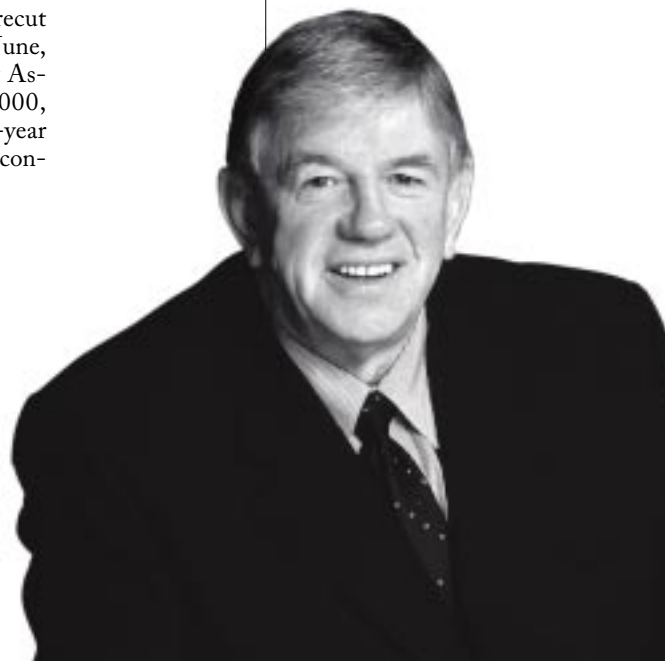
Sumitomo Forestry has placed staff overseas in the Pacific Rim and Europe to select and import lumber building materials and sawing products.

Murray G. Sturgeon

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



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





Inside the NPIL mill

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

INOS Business

The INOS business aims to promote the efficient supply of high-quality construction materials by supporting the modernization of small and medium-sized housing companies of the INOS Group through the supply of technology and expertise accumulated in the housing business. In October 2000, the Company worked to expand business through such

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



initiatives as introducing highly airtight, insulated products that meet next-generation energy conservation standards. Consequently, the number of member housing companies at fiscal year-end totaled 469, and the number of homes constructed rose 126 to 2,153 units, resulting in a ¥600 million increase in sales to ¥10.5 billion.

Building Material Production and Other Businesses

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

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

光吉敏郎

Toshiro Mitsuyoshi
Overseas Business
Division



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



MDF, derived from afforested lumber, and particle board, which derives from afforested lumber as well as discarded wood. In July 2001, the Company acquired ISO 14001 certification.

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

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

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

Overseas Business

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

Overseas Manufacturing Bases

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



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

住宅 及び住宅関連事業

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



The look of the "Forest Family"

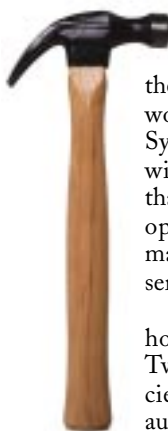
Detached Homes

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

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

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

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



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

中井敦司

Atsushi Nakai
Technology
& Production
Division



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

A photograph of a modern Japanese interior. In the foreground, a long, low wooden table holds a bowl of fruit (apples, pears, and a purple eggplant) and a small white teapot on a wooden tray. To the left, a low wooden bench is positioned against a wall of built-in shelves displaying various objects, including books, vases, and small figurines. The room features a warm, minimalist aesthetic with wooden beams, a patterned rug, and a large window in the background. The lighting is soft and warm, creating a cozy atmosphere.

Fumiyo Mizukami
Tokyo Housing
Business
Division

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

Home Landscaping and Other Businesses

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

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

A black and white photograph of a woman with short, dark hair, smiling broadly. She is wearing a dark, textured cardigan over a light-colored blouse with a prominent ruffled collar. She is holding a large, white, rectangular object, possibly a book or a portfolio, which features the text "GODAI" and "Limited Edition" along with some faint illustrations. The background is plain and light-colored.

その他

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

清水孝一

Koichi Shimizu
Information
Systems
Division



Real Estate Distribution

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

Agricultural and Gardening Potting Compost

Sumirin Agro-Products Co., Ltd. produces potting compost for agricultural and horticultural use, a business that we regard as contributing significantly to environmental preservation. The Company produces potting compost using the sediment in clean

water generated by water purification plants operated by the government. In the fiscal year under review, we launched one new factory to carry out such activities in cooperation with a local municipality.

Other Business

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



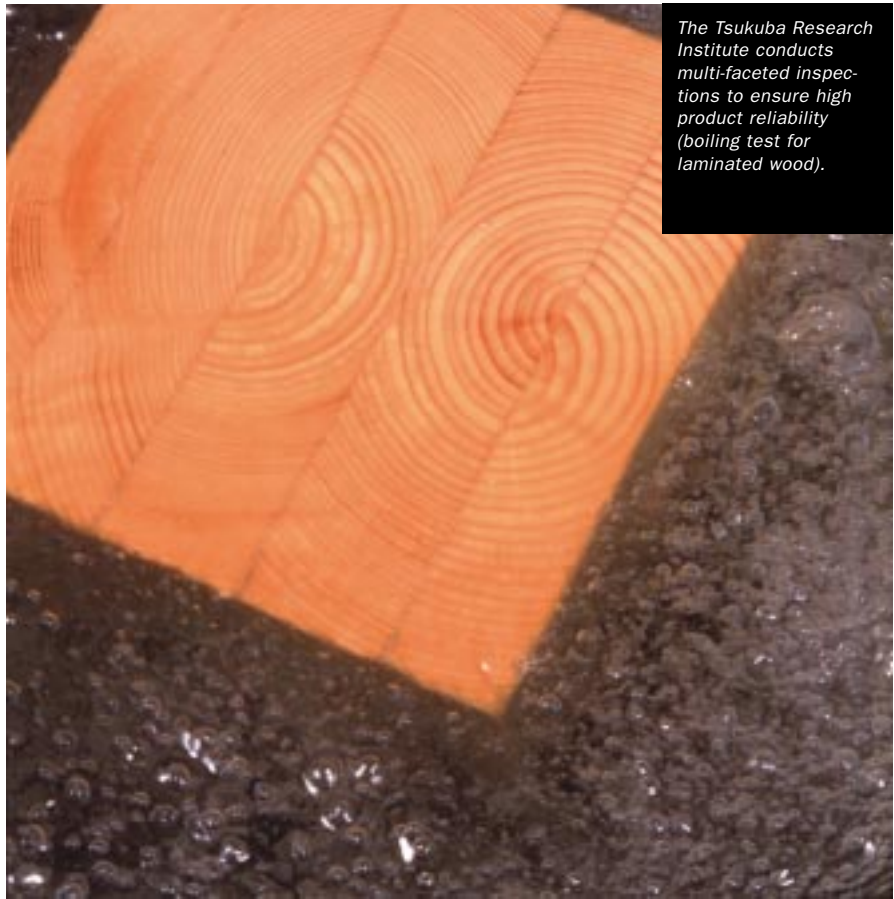
Sumirin Agro-Products' potting compost for agricultural and horticultural use is popular among tomato farmers.

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

研究開発

江川 眞

Makoto Egawa
Tsukuba Research
Institute,
General Manager



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

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

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

and earthquake resistance devices.

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



Decomposed bacteria of the environmental hormone bisphenol A (BPA)

企業市民として

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



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

Tropical Rain Forest Regeneration Project

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

Our regeneration plans, the like of which have not been attempted, involve the use of afforestation technology for use in the regeneration of the locally dominant *Dipterocarpaceae* family of trees. We are working to strengthen socially responsible forestry, which aims to achieve peaceful co-existence between farming and forestry among slash-and-burn farmers and immigrants through relocation measures. We have already reforested a

total of 400 hectares, and continue to encourage socially responsible forestry that is sensitive to the earth while establishing regeneration technology for tropical rain forests.

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

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



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

環境保護のために

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



Acquisition of ISO 14001 Certification

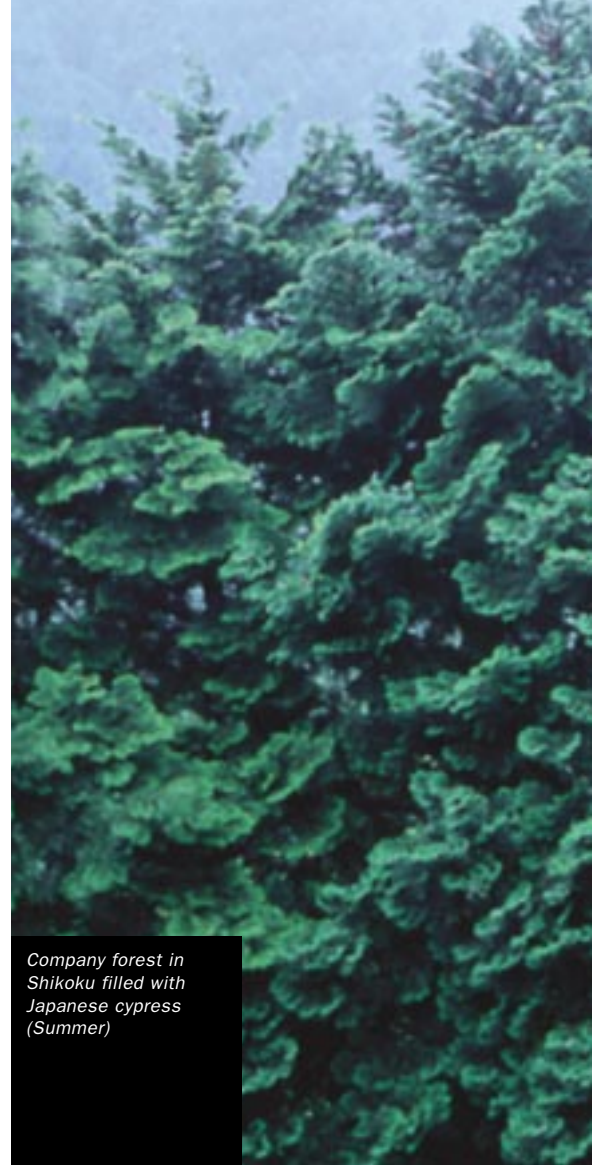
As one part of our environmental conservation efforts, we introduced a Company-wide environmental management system. Since August 1997, Sumitomo Forestry has acquired ISO 14001 certification for environmental management at five headquarter divisions and the Northern Kanto regional division. In July 1999,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

Forestry Management

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



Company forest in Hokkaido (Winter)



Company forest in Shikoku filled with Japanese cypress (Summer)

Timber and Building Materials

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



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

Housing Construction

In August 1999, Sumitomo Forestry's houses were certified as "Environmentally Symbiotic Housing" due to their environmentally responsible construction and energy efficient structure, which fulfills the Environmentally Symbiotic Housing Systems criteria for highly efficient resource usage, health, comfort and safety. Sumitomo Forestry is creating environmentally sound housing based on the following policies: (1) We aim to reduce environmental load from the basic stage of product development and design; (2) We use materials and recycled

products that reflect environmental considerations; (3) We use production and processing technologies that are highly energy efficient; and (4) We strive to reduce the amount of waste materials, to reuse and recycle whenever possible, and to responsibly dispose of unusable materials.

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

Environmental Businesses

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



Company forest in Wakayama (Fall)

楠
本
洋
一

Yoichi Kusumoto
Green Environmental R&D
Division



1691

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



A map of Besshi copper hills (The Edo Period)

1894



Teigo Iba

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

1942

Forestry operations launched in Sumatra, Borneo and Java

1948

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

1955

Nationwide lumber collection and marketing structure created



Imported lumber being unloaded at docks

1956

Initiated foreign lumber import business

1970

Company listed on the Osaka Securities Exchange

1972

Launched greenification business

Power of the Forest

WORLD TIMELINE

1688

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

1896

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

1939

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

1948

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

1963

U.S. President John F. Kennedy Assassinated

1966

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

1969

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

1971

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

1974

1975

1986



A custom-built wooden home created in the 1970s

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

Launched custom-built wooden homes

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

1988

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



Tsukuba Research Institute

1990

Company listed on the Tokyo Stock Exchange

1991

Established Tsukuba Research Institute



Experimental woodland in Sebuku

1997

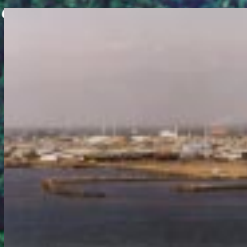
Started Manabi no Mori, a project designed to contribute to society by restoring natural forests in typhoon-damaged areas of Mt. Fuji

1998

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

2001

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



The KTI Plant



Trials in organized cultivation of Dipterocarpaceae family

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

1980

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

1985

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

1990

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

1991

Dissolution of the USSR

1994

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

1995

First successful cloning of sheep achieved in England

1999

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

Company forest near Besshi, Shikoku

Market Overview

During fiscal 2001, domestic new housing starts—the economic indicator with the greatest influence on the Sumitomo Forestry Group's earnings—declined 1.1% from the previous fiscal year to 1,213,000 units with wooden housing starts falling 3.0% to 548,000 units. New housing starts in the owner-occupied category, which is the target segment for the Sumitomo Forestry Group's core business of single-unit housing sales, dropped 8.0% to 437,000 units. Market conditions for the timber and building materials segment, in which housing demand has been contracting, showed signs of weakness.

Overall, the Japanese economy moved toward a self-sustaining recovery temporarily, mainly in the corporate sector with moderate expansion of private-sector capital investment and exports. However, concerns over the possibility of falling into another recession grew, mainly due to a lack of improvement in consumer spending and the downturn in the U.S. economy toward the end of the fiscal year following

stagnation in IT-related industries, which had been engines for economic growth.

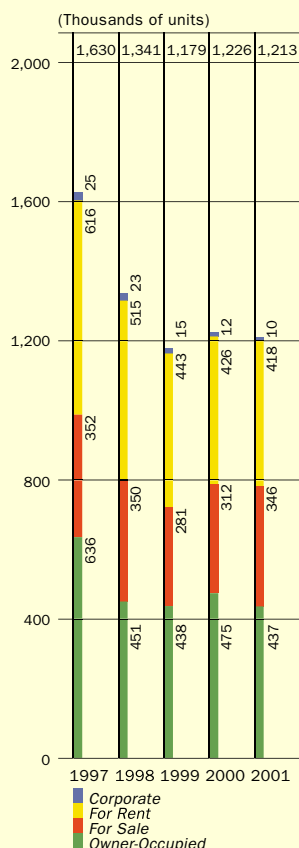
In the housing industry, first-time home buyers in their 30s were the driving force behind market growth due to such government policies as the continuation of low interest rates and a tax system that promotes home buying. However, there was no improvement in the reluctance of workers in their 40s and 50s to buy homes amid heightened concerns for future income and employment.

In fiscal 2002, we do not expect an easing of concerns about the future of the economy. As a result, we foresee further declines in housing and project a fall in new housing starts to 1,150,000 units and a drop in owner-occupied housing to 420,000 units.

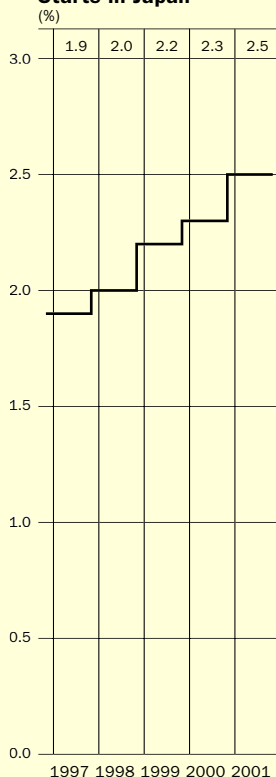
Scope of Consolidation

Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries are primarily engaged in residential construction and related upstream and downstream businesses. During fiscal

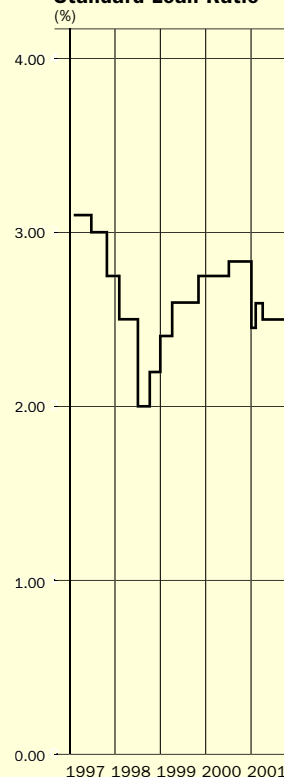
Number of New Housing Starts in Japan



Company's Share of Owner-Occupied Housing Starts in Japan



Housing Loan Corporation Standard Loan Ratio



2001, ended March 31, 2001, consolidated financial statements include the results of 51 consolidated subsidiaries, an increase of 1 company, and 2 companies accounted for by the equity method, a decrease of 1 company from the previous fiscal year.

Overview

Consolidated sales and other income declined 2.4% to ¥685.2 billion (US\$5,526.3 million). Measures to raise efficiency and reduce costs supported sharp improvement in profitability, with net income advancing 22.5% to ¥6.9 billion (US\$56.4 million). Management maintained cash dividends per share of ¥10.00 (US\$0.08).

Return on assets (ROA) improved 0.3 percentage point to 1.9%, and return on equity (ROE) increased 0.7 percentage point to 4.7%.

The net sales, operating expenses and operating income of each segment and consolidated subsidiary have been affected by changes to the total computation method.

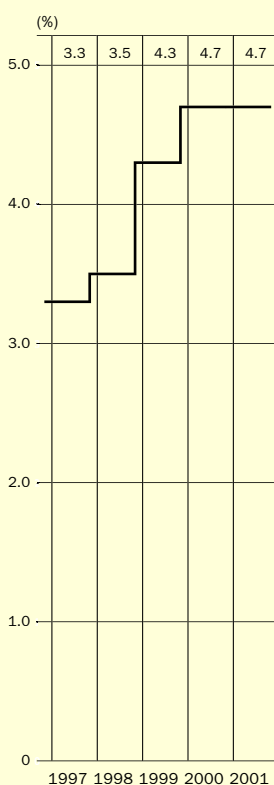
Sales and Other Income

Net sales and contract revenues were down 2.5% to ¥682.3 billion (US\$5,503.0 million). By segment, sales and contract revenues in the timber and building materials segment dropped 16.5% to ¥267.9 billion (US\$2,160.7 million), or 39.3% of total sales and contract revenues.

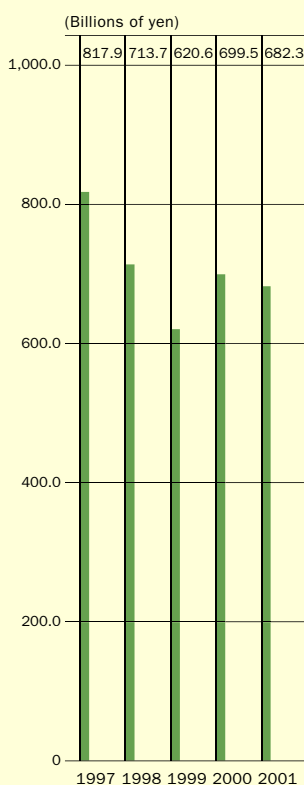
In the housing segment, sales and contract revenues increased 9.4% to ¥405.0 billion (US\$3,266.2 million). Deliveries of custom-built, single-unit houses increased to 11,671 units with a total contract value of ¥334.0 billion (US\$2,693.7 million). The contract balance of custom-built units at fiscal year-end stood at 9,585 units, or ¥273.4 billion (US\$2,204.9 million). In addition, the Group delivered 39 units of ready-built houses, and 893 units of condominiums and apartments.

Sales in the other segment increased 8.1% to ¥9.4 billion (US\$76.0 million).

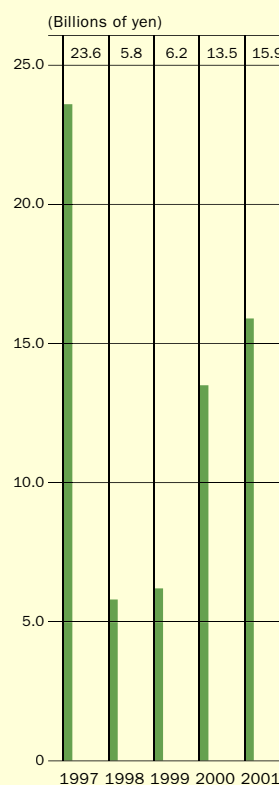
Unemployment Rate



Net Sales and Contract Revenues



Operating Profit



Net Income

The cost of sales and contracts completed declined 3.9% to ¥564.3 billion (US\$4,550.8 million). The ratio of cost of sales and contracts completed to sales and contract revenues was 82.7%, compared with 84.0% in the previous fiscal year. Selling, general and administrative (SG&A) expenses increased 3.4% to ¥102.0 billion (US\$823.1 million). The ratio of SG&A expenses to sales and contract revenues increased 0.9 percentage point to 15.0%.

Consequently, operating profit advanced 18.1% to ¥15.9 billion (US\$129.0 million), and the operating profit margin improved 0.4 percentage point to 2.3%. Operating profit (before deducting unallocable corporate expenses) fell 65.3% in the timber and building materials segment to ¥5.1 billion (US\$41.3 million), soared 223.5% in the housing segment to ¥16.6 billion (US\$134.1 million), and decreased 8.8% in the other segment to ¥519 million (US\$4.1 million). The operating profit margin was 1.9% in the timber and building materials segment, 4.1% in the housing segment, and 5.5% in the

other segment.

Interest expense declined 3.3% to ¥559 million (US\$4.5 million), with interest and dividend income up 2.6% to ¥667 million (US\$5.3 million). Other income grew 35.1% to ¥2.2 billion (US\$17.9 million), with other expenses down 55.1% to ¥1.2 billion (US\$9.9 million).

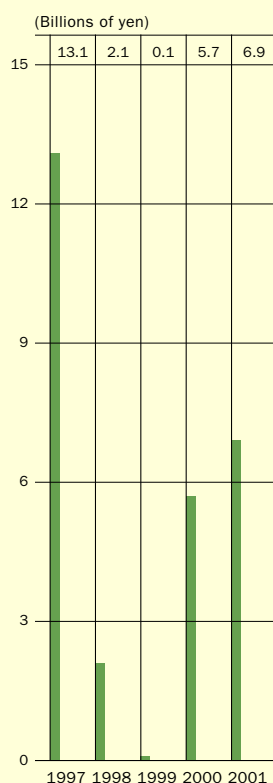
With special losses, net, of ¥4.2 billion (US\$34.1 million), mostly comprising a gain on securities contributed to employee retirement benefit trust and a transaction difference of new accounting standard for retirement benefit, income before income taxes increased 6.4% to ¥12.6 billion (US\$102.1 million).

Net income climbed 22.5% to ¥6.9 billion (US\$56.4 million).

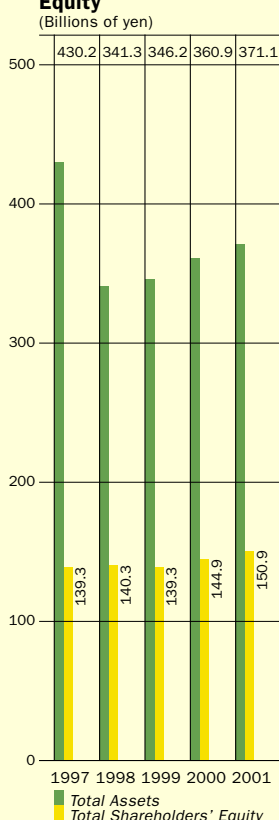
Cash Flows

Net cash provided by operating activities was ¥3.4 billion (US\$27.9 million), compared with net cash used in operating activities of ¥3.2 billion in fiscal 2000. Depreciation and am-

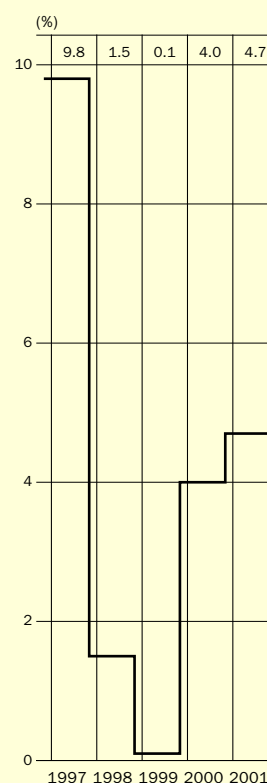
Net Income



**Total Assets/
Total Shareholders' Equity**



ROE



ortization decreased 4.3% to ¥4.5 billion (US\$36.7 million).

Net cash used in investment activities fell ¥1.3 billion to ¥1.9 billion (US\$15.8 million), reflecting the absence of payments for purchases of marketable securities in fiscal 2001.

Net cash used in financing activities increased ¥8.5 billion to ¥13.8 billion (US\$111.8 million) as the Company continued to repay long-term and short-term debt.

In aggregate, cash and cash equivalents at the end of the year declined ¥12.4 billion to ¥47.4 billion (US\$382.8 million).

Financial Position

Total current assets increased 2.7% to ¥258.5 billion (US\$2,084.9 million), as a rise in notes and accounts, trade, and loans and other offset a decline in cash and cash equivalents. Inventories totaled ¥46.4 billion (US\$374.8 million), largely unchanged from the previous fiscal year.

Total current liabilities increased ¥14.3 billion to ¥197.2 billion (US\$1,590.4 million), mainly due to rises in the current portion of long-term debt and notes and accounts, trade.

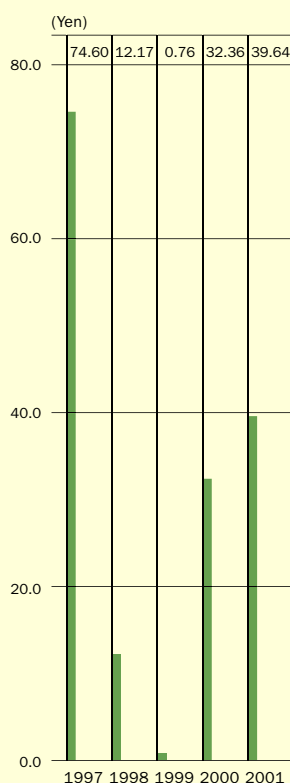
Net working capital declined ¥7.5 billion to ¥61.3 billion (US\$494.5 million), with a current ratio of 131.1%.

Total investments and long-term receivables increased ¥4.5 billion to ¥39.1 billion (US\$315.9 million), mainly due to an increase in investment securities. Property, plant and equipment, at cost less accumulated depreciation, edged up ¥0.4 billion to ¥57.5 billion (US\$464.4 million). Total assets increased 2.8%, or ¥10.1 billion, to ¥371.1 billion (US\$2,992.7 million).

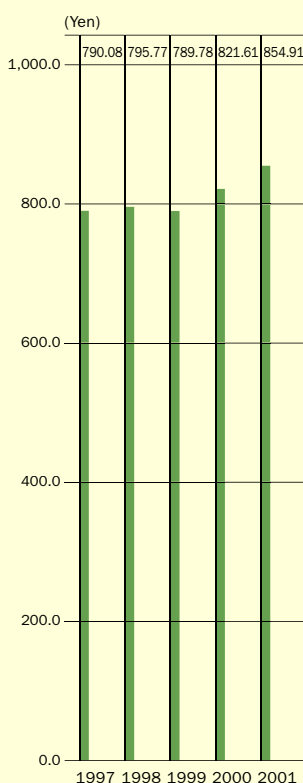
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt and long-term debt) declined ¥10.4 billion to ¥24.5 billion (US\$197.7 million).

Total shareholders' equity increased ¥6.0 billion to ¥150.9 billion (US\$1,217.5 million), and the equity ratio increased 0.6 percentage point to 40.7%.

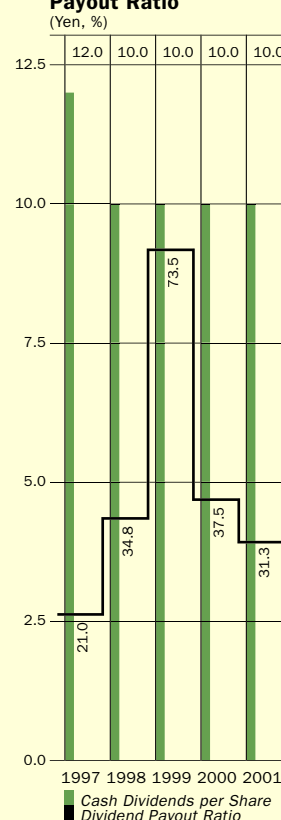
Net Income per Share



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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2001	2000	2001
Current assets:			
Cash and cash equivalents—			
Cash and cash in bank	¥ 42,024	¥ 33,905	\$ 338,903
Money market funds	5,452	8,214	43,967
Commercial paper	—	17,795	—
	47,476	59,916	382,870
Time deposits	639	554	5,153
Marketable securities (Note 5)	1,219	2,393	9,830
Receivables (Note 12)—			
Notes and accounts, trade	102,373	95,744	825,588
Loans and other	52,308	43,704	421,838
Allowance for doubtful accounts	(368)	(909)	(2,967)
	154,312	138,539	1,244,451
Inventories (Note 6)	46,486	46,136	374,887
Deferred income taxes (Note 10)	3,745	1,778	30,201
Other current assets (Note 12)	4,652	2,399	37,516
Total current assets	258,532	251,717	2,084,935
Investments and long-term receivables:			
Investment securities (Notes 5 and 12)	24,098	19,642	194,338
Long-term loans and receivables (Note 12)	5,971	6,231	48,153
Other investments (Note 10)	9,802	9,260	79,048
Allowance for doubtful accounts	(690)	(469)	(5,564)
Total investments and long-term receivables	39,181	34,664	315,975
Property, plant and equipment, at cost less accumulated depreciation (Notes 7 and 9)	57,586	57,112	464,403
Timberland (Notes 8 and 9)	11,382	10,796	91,790
Intangible assets, net of amortization	4,419	3,465	35,637
Foreign currency translation adjustments (Note 3 (2) (B))	—	3,178	—
	¥371,102	¥360,935	\$2,992,758

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
LIABILITIES AND SHAREHOLDERS' EQUITY	2001	2000	2001
Current liabilities:			
Payables (Note 12)—			
Notes and accounts, trade	¥111,892	¥ 99,838	\$ 902,354
Other	7,411	4,665	59,766
	119,304	104,504	962,129
Advances received from customers	39,616	39,502	319,483
Short-term debt (Note 9)	8,492	14,580	68,483
Current portion of long-term debt (Note 9)	10,365	1,493	83,588
Accrued income taxes	6,057	2,842	48,846
Accrued employees' bonuses	7,359	6,970	59,346
Other current liabilities (Notes 3 (2) (E), 10 and 12)	6,017	12,930	48,524
Total current liabilities	197,213	182,825	1,590,427
Long-term liabilities:			
Long-term debt (Note 9)	5,660	18,943	45,645
Deferred income taxes (Note 10)	2,839	1,096	22,895
Accrued severance indemnities (Note 11)	4,596	3,022	37,064
Other	9,648	9,744	77,806
Total long-term liabilities	22,744	32,807	183,419
Minority interest in consolidated subsidiaries	165	387	1,330
Shareholders' equity (Note 14):			
Common stock of ¥50 par value—			
Authorized: 400,000,000 shares			
Issued and outstanding: 176,603,881 shares	27,672	27,660	223,161
Capital surplus	25,650	25,490	206,854
Retained earnings	96,861	91,764	781,137
Treasury stock	(0)	(1)	(0)
Unrealized gain on available-for-sale securities	4,083	—	32,927
Foreign currency translation adjustments (Note 3 (2) (B))	(3,287)	—	(26,508)
Total shareholders' equity	150,979	144,914	1,217,572
Commitments and contingent liabilities (Note 17)			
	¥371,102	¥360,935	\$2,992,758

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	2001
Sales and other income (Note 12):			
Net sales	¥303,777	¥350,178	\$2,449,814
Contract revenues	378,598	349,416	3,053,209
Interest and dividend income	667	650	5,379
Equity in earnings of affiliates	—	11	—
Other	2,224	1,646	17,935
Total	685,267	701,902	5,526,346
Costs and expenses (Notes 12 and 15):			
Cost of sales	279,416	317,972	2,253,354
Cost of contracts completed	284,894	269,352	2,297,532
Selling, general and administrative expenses	102,065	98,720	823,104
Interest expense	559	578	4,508
Equity in losses of affiliates	194	—	1,564
Other	1,228	2,736	9,903
Total	668,358	689,360	5,389,983
Income before special gains (losses), net	16,908	12,541	136,354
Special gains (losses), net (Note 13)	(4,237)	(634)	(34,169)
Income before income taxes (Notes 3 (2) (D), (F) and 11)	12,670	11,906	102,177
Income taxes (Note 10):			
Current	9,472	6,583	76,387
Deferred	(3,774)	(415)	(30,435)
	5,697	6,168	45,943
Minority interest in income of consolidated subsidiaries	(21)	30	(169)
Net income	¥ 6,994	¥ 5,708	\$ 56,403

	Yen	U.S. dollars (Note 4)
Per share (Note 3 (2) (P)):		
Net income	¥39.64	¥32.36 \$0.31
Cash dividends	10.00	10.00 0.08

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, 2001 and 2000

	Number of shares of common stock	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance as at March 31, 1999	176,381,182	¥27,660	¥25,490	¥86,150
Cumulative effect of change in accounting for income tax	—	—	—	1,180
Decrease due to change in consolidation of subsidiaries	—	—	—	(58)
Increase due to change in affiliates using the equity method	—	—	—	609
Net income	—	—	—	5,708
Cash dividends	—	—	—	(1,763)
Bonuses to directors	—	—	—	(62)
Balance as at March 31, 2000	176,381,182	27,660	25,490	91,764
Decrease due to change in consolidation of subsidiaries	—	—	—	(73)
Increase due to issuance of new shares	222,699	11	159	—
Net income	—	—	—	6,994
Cash dividends	—	—	—	(1,763)
Bonuses to directors	—	—	—	(60)
Balance as at March 31, 2001	176,603,881	¥27,672	¥25,650	¥96,861

	Thousands of U.S. dollars (Note 4)		
	Common stock	Capital surplus	Retained earnings
Balance as at March 31, 2000	\$223,064	\$205,564	\$740,032
Decrease due to change in consolidation of subsidiaries	—	—	(588)
Increase due to issuance of new shares	88	1,282	—
Net income	—	—	56,403
Cash dividends	—	—	(14,217)
Bonuses to directors	—	—	(483)
Balance as at March 31, 2001	\$223,161	\$206,854	\$781,137

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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes	¥ 12,670	¥ 11,906	\$ 102,177
Adjustments—			
Depreciation and amortization	4,551	4,756	36,701
(Reversal of) Provision for doubtful accounts	(319)	(788)	(2,572)
Provision for severance indemnities, less payments	1,574	472	12,693
Interest and dividend income	(667)	(650)	(5,379)
Interest expense	559	578	4,508
Equity in (earnings) losses of affiliates	194	(11)	1,564
Devaluation of marketable securities and investment securities	470	613	3,790
Losses (Gains) on sales of marketable securities and investment securities, net	0	2	0
Losses on disposal of fixed assets, net	15	162	120
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(8,472)	(21,025)	(68,322)
Inventories	447	(3,910)	3,604
Other current assets	(10,682)	(823)	(86,145)
Notes and accounts payable, trade	14,293	3,827	115,266
Advances received from customers	(695)	7,599	(5,604)
Other current liabilities	(5,347)	1,930	(43,120)
Other	1,025	214	8,266
	9,618	4,855	77,564
Interest and dividend income received	718	651	5,790
Interest paid	(561)	(530)	(4,524)
Income taxes (paid) refunded, net	(6,305)	(8,258)	(50,846)
Net cash (used in) provided by operating activities	3,468	(3,281)	27,967
Cash flows from investment activities:			
Payments for purchases of marketable securities	—	(1,254)	—
Proceeds from sales of marketable securities	2,393	1,030	19,298
Payments for purchases of fixed assets	(8,970)	(9,014)	(72,338)
Proceeds from sales of fixed assets	5,208	5,251	42,000
Payments for purchases of investment securities	(862)	(683)	(6,951)
Proceeds from sales of investment securities	58	99	467
Payments for long-term loans receivable	(279)	(460)	(2,250)
Repayments of long-term loans receivable	1,313	523	10,588
Decrease (Increase) in short-term loans receivable	1,704	966	13,741
Decrease (Increase) in time deposits	(85)	2,272	(685)
Other	(2,440)	(2,061)	(19,677)
Net cash used in investment activities	(1,960)	(3,330)	(15,806)
Cash flows from financing activities:			
Proceeds from long-term debt	195	600	1,572
Repayments of long-term debt	(4,376)	(2,897)	(35,290)
Decrease in short-term borrowings	(7,916)	(1,278)	(63,838)
Dividends paid	(1,763)	(1,763)	(14,217)
Other	(11)	(11)	(88)
Net cash used in financing activities	(13,873)	(5,351)	(111,879)
Effect of exchange rate changes on cash and cash equivalents	8	(99)	64
Net (decrease) increase in cash and cash equivalents	(12,356)	(12,063)	(99,645)
Cash and cash equivalents at the beginning of the year	59,916	71,971	483,193
Increase (Decrease) in cash and cash equivalents due to change in consolidation of subsidiaries	(82)	8	(661)
Cash and cash equivalents at the end of the year	¥ 47,476	¥ 59,916	\$ 382,870

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 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. 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.

Following the financial statement preparation procedures prescribed by "The Regulation Pertaining to the Balance Sheets, Profit and Loss Statements, Business Reports and Supplementary Schedules of Joint Stock Corporations" of the Ministry of Justice, the last six digits of yen amounts have been omitted in the presentation of the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Companies have adopted new accounting standards for consolidation and tax-effect accounting in the preparation of the consolidated financial statements for the year ended March 31, 2000.

(1) Accounting Changes

(A) LABOR COSTS FOR CONSTRUCTION

In the prior periods, labor costs incurred in relation to ordered construction were recognized as selling, general and administrative expenses. The Company has changed the cost allocation method to charge 70% of these costs to cost of construction from the current year. 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 (US\$20,548 thousand) and selling, general and administrative expenses decreased by ¥2,929 million (US\$23,620 thousand).

(B) SALES OF THE CONSTRUCTION MATERIALS

In the past, the Company accounted for materials such as pre-cut 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 subcontractor at cost for processing and subsequently repurchased at cost plus upon completion) and rest materials were recognized as sales to building firms. From the current year, 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 (US\$488,596 thousand), ¥53,416 million (US\$430,774 thousand) and ¥6,759 million (US\$54,508 thousand), respectively. Furthermore, operating profit, ordinary profit and hence profit before taxes were decreased by ¥410 million (US\$3,306 thousand).

(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

Prior to April 1, 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. The adoption of revised accounting standards for foreign currency transactions did not have a material effect on the accompanying consolidated financial statements.

The financial statement of overseas subsidiaries and affiliates, except for paid-in capital and retained earnings at the beginning of the period, are translated at current exchange rates at the respective balance sheet dates.

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.

(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

Prior to April 1, 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. 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.

Adoption of the new accounting standard for financial instruments relating to the allowance for doubtful accounts increased income before income taxes by ¥241 million (US\$1,943 thousand) for the year ended March 31, 2001.

(E) 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.

(F) MARKETABLE SECURITIES AND INVESTMENTS

Prior to April 1, 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.

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.

Adoption of the new accounting standard for financial instruments relating to securities increased income before income taxes by ¥576 million (US\$4,645 thousand) for the year ended March 31, 2001.

(G) 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.

(H) 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 (see Note 7).

Under accounting principles generally accepted in Japan, the amount to be deferred is accounted for as a special loss or as an appropriation of retained earnings to special reserves, depending on the circumstances.

(I) 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 8).

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.

(J) INTEREST CAPITALIZATION

The Companies do not capitalize interest costs related to assets that are constructed or otherwise produced for their own use, that are intended for sale or lease or that are constructed or otherwise produced as discrete projects. Such interest is charged to current income as incurred.

(K) 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.

Directors are not covered by the regulations. Benefits paid to them are charged to income upon approval by the shareholders.

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 employee' 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 net retirement benefit obligation at transition, unrecognized actual gain or loss and unrecognized prior service cost.

(L) 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.

(M) 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.

(N) 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 (see Note 14).

(O) 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.

(P) FREE SHARE DISTRIBUTIONS AND EARNINGS PER SHARE

In accordance with the Japanese Commercial Code, a free share distribution may be made upon approval of the Board of Directors by transferring the par value of the related shares from capital surplus to the common stock account. In Japan, a free share distribution is clearly distinguished from a stock dividend.

The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

(Q) RECLASSIFICATIONS

Certain accounts in the consolidated financial statements for the years ended March 31, 2000 have been reclassified to conform to presentation in 2001.

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 ¥124=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2001. 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, 2001 were as follows;

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥15,486	¥7,855	¥(814)	¥22,527
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,271	4	—	1,275

	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$124,887	\$63,346	\$(6,564)	\$181,669
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	10,250	32	—	10,282

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		2001	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due within one year	¥—	¥1,219	\$—	\$ 9,830
Due after one year through five years	—	51	—	411
	¥—	¥1,271	\$—	\$10,250

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. INVENTORIES

Inventories at March 31, 2001 and 2000 included:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods, logs and lumber	¥16,708	¥13,833	\$134,741
Developed land and housing for sale	5,892	7,805	47,516
Land and housing projects in progress	23,885	24,497	192,620
	¥46,486	¥46,136	\$374,887

7. PROPERTY, PLANT AND EQUIPMENT

The investment in property, plant and equipment at March 31, 2001 and 2000 comprised:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Land	¥ 25,254	¥ 25,377	\$ 203,661
Buildings and structures	31,356	30,490	252,870
Machinery and equipment	31,114	29,424	250,919
Construction in progress	2,968	2,266	23,935
Accumulated depreciation	(33,107)	(30,446)	(266,991)
	¥ 57,586	¥ 57,112	\$ 464,403

The property, plant and equipment accounts at March 31, 2001 and 2000 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of property, plant and equipment:

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	¥522	¥522
		\$4,209

8. TIMBERLAND

The investment in timberland at March 31, 2001 and 2000 comprised:

	Millions of yen	Thousands of U.S. dollars
	2001	2000
Standing timber:		
Mature timber	¥ 9,904	¥ 9,213
Growing timber	1,001	1,105
	10,905	10,318
Land	477	477
	¥11,382	¥10,796
		\$91,790

The timberland accounts at March 31, 2001 and 2000 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
	2001	2000
	¥268	¥263
		\$2,161

9. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2001 generally represented short-term borrowings which bore interest of 1.55% per annum. Long-term debt at March 31, 2001, is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Loans, principally from banks and insurance companies, due 2001 to 2038 with interest of 3.20%:		
Secured	¥ 2,195	\$ 17,701
Unsecured	5,829	47,008
Unsecured fixed rate Euro-yen bonds:		
1.50% due 2001	3,000	24,193
1.30% due 2001	1,000	8,064
Unsecured floating rate Euro-yen bonds:		
LIBOR plus 0.65 basis points, due 2001	2,000	16,129
LIBOR plus 0.68 basis points, due 2003	1,200	9,677
LIBOR plus 0.92 basis points, due 2003	500	4,032
LIBOR plus 0.70 basis points, due 2001	300	2,419
	16,025	129,233
Portion due within one year	10,365	83,588
	¥ 5,660	\$ 45,645

The following assets were pledged to secure bank loans and long-term debt at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 50	\$ 403
Buildings and structures	1,365	11,008
Machinery and equipment	4,308	34,741
Timberland	1,757	14,169
	¥7,481	\$60,330

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥10,365	\$ 83,588
2003	2,743	22,120
2004	2,114	17,048
2005	662	5,338
2006	139	1,120
Thereafter	—	—
	¥16,025	\$129,233

As is customary in Japan, bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank. Any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to the bank and the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations owed to the bank.

It is a customary practice in Japan for a company to have a substantial amount of time deposits with various banks in connection with its overall banking relations. However, the Companies have no formal compensating balance arrangements with any lending bank.

10. 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 2001 and 2000.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate at March 31, 2001 is as follows:

Statutory tax rate	42.0%
Non-deductible expense for tax purposes	1.6
Per capita portion of Inhabitant Tax	1.6
Valuation allowance	1.5
Other	(1.8)
Effective income tax rate	45.0%

The significant components of deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Accrued employees' bonuses	¥ 1,510	\$ 12,177
Provision for guarantee for after-cost of construction...	196	1,580
Advances received	622	5,016
Enterprise taxes	543	4,379
Devaluation of real estate for sale and other assets ..	1,163	9,379
Pension and severance costs	4,923	39,701
Unrealized intercompany profit	271	2,185
Tax loss carryforwards	3,175	25,604
Other	948	7,645
Gross deferred tax assets	13,355	107,701
Valuation allowance	(3,118)	(25,145)
Total deferred tax assets	10,236	82,548
Deferred tax liabilities:		
Deferred gains on sales of property	(1,145)	(9,233)
Unrealized gain on available-for-sale securities	(2,957)	(23,846)
Gain on securities contributed to employee retirement benefit trust	(3,284)	(26,483)
Other	(886)	(7,145)
Gross deferred tax liabilities	(8,274)	(66,725)
Net deferred tax assets...	¥ 1,962	\$ 15,822

Net deferred tax assets are included in the consolidated balance sheets at March 31, 2001 as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets—Deferred income taxes	¥ 3,745	\$ 30,201
Investments and long-term receivables—Other investments	1,057	8,524
Current liabilities—Other	(2)	(16)
Long-term liabilities—Deferred income taxes	(2,839)	(22,895)
Net deferred tax assets	¥ 1,962	\$ 15,822

11. 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.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted the new accounting standard for employees' retirement benefits. The Company recorded a gain on

establishment of retirement benefit trust and a write off of unrealized transitional obligation during the fiscal year under review. The adoption of the new accounting standards for retirement benefits decreased income before income taxes by ¥2,824 million (US\$22,774 thousand) for the year ended March 31, 2001.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation....	¥(37,308)	\$(300,870)
Fair value of plan assets	26,159	210,959
Unrecognized transitional obligation	—	—
Unrecognized actuarial loss ...	6,551	52,830
Unrecognized prior service cost	—	—
Prepaid pension cost	—	—
Net liability for retirement benefits	¥ (4,596)	\$ (37,064)

The components of net periodic benefit costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 3,267	\$ 26,346
Interest cost	1,340	10,806
Expected return on plan assets	(915)	(7,379)
Amortization of transitional obligation	9,997	80,620
Recognized actuarial loss	—	—
Amortization of prior service cost	—	—
Net periodic benefit costs	¥13,689	\$110,395

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

Assumptions used for the year ended March 31, 2001 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

12. ACCOUNT BALANCES AND TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Account balances and transactions with unconsolidated subsidiaries and affiliates for the years ended March 31, 2001 and 2000 are as follows:

	2001	2000	2001
Assets:			
Notes and accounts receivable, trade	¥1,830	¥1,694	\$14,758
Loans and other receivable ..	60	113	483
Other current assets	11	173	88
Investment securities	694	903	5,596
Long-term loans and receivables	292	220	2,354
Liabilities:			
Notes and accounts payable, trade	598	911	4,822
Other current liabilities	702	703	5,661

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	2001	2001
Sales	¥5,661	¥5,806
Purchases	4,224	8,273
		\$45,653
		34,064

13. SPECIAL GAINS (LOSSES), NET

Special gains (losses), net, for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	2001	2001
Special gains on:		
Disposal of property, plant and equipment	¥ 367	¥ 69
Sales of investment securities	6	—
Gain on securities contributed to employee retirement benefit trust	7,820	—
Liquidation of a subsidiary ...	—	17
Other	689	—
		\$ 2,959
		48
		63,064
		5,556
Total of special gains ...	8,884	86
		71,645
Special losses on:		
Disposal of property, plant and equipment	(41)	(95)
Devaluation of investment securities	(470)	(613)
Sales of investment securities	(6)	(11)
Transaction difference of new accounting standard for retirement benefit	(9,997)	—
Devaluation of real estate for sale and other assets ..	(2,605)	—
		(330)
		(3,790)
		(48)
		(80,620)
		(21,008)
Total of special losses ...	(13,121)	(721)
		(105,814)
Special gains (losses), net	¥ (4,237)	¥(634)
		\$ (34,169)

14. SHAREHOLDERS' EQUITY

Appropriations of retained earnings are recorded in the accounts only after shareholders' approval has been obtained. The following appropriations of retained earnings of the Company for the year ended March 31, 2001 were approved at the ordinary general meeting of shareholders held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥5.00 (US\$0.04) per share	¥ 883	\$ 7,120
Bonuses to directors	45	362
Retained earnings to be carried forward	95,933	773,653
	¥96,861	\$ 781,137

Based on a resolution at the Board of Directors' meeting, interim cash dividends of ¥881 million (¥5.00 per share) were paid in December 2000.

The Japanese Commercial Code provides that an amount equivalent to a minimum of 10% of cash dividends and other distributions from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until such reserve equals 25% of the capital stock account. The balance of the reserve may be used to reduce a deficit and/or may be transferred to the capital stock account.

The balances of the legal reserve of the Company at March 31, 2001 and 2000, which are included in retained earnings in the accompanying consolidated balance sheets, are ¥2,764 million (US\$22,290 thousand) and ¥2,561 million, respectively.

Details of special reserves at March 31, 2001 and 2000, which were included in retained earnings of shareholders' equity in the accompanying consolidated balance sheets, are as follows:

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	2001	2001
Reserve for:		
Planned reforestation	¥ 27	¥ 32
Deferred capital gain on sale of real estate (see Note 3 (H) and (N))	1,583	1,576
	¥1,610	¥1,609
		\$ 217
		12,766
		\$12,983

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2001 were ¥1,144 million (US\$9,225 thousand).

16. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2001 and 2000 were ¥5,178 million (US\$41,758 thousand) and ¥4,803 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
	2001	2000
	2001	2001
Buildings and structures	¥ 13,357	¥11,310
Machinery and equipment	8,642	8,031
Other	236	289
Accumulated depreciation	(10,844)	(9,513)
	¥ 11,391	¥10,118
		\$ 91,862

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	2001	2001
Depreciation	¥4,914	¥4,535
Interest expenses	215	166
		\$39,629
		1,733

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, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2001	2000
	2001	2001
Current obligation	¥ 4,557	¥ 4,068
Long-term obligation	7,040	6,227
Present value of lease payments	¥11,597	¥10,296
		\$36,750
		56,774
		\$93,524

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2001 and 2000 are ¥557 million (US\$4,491 thousand) and ¥603 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, 2001, comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Buildings and structures	¥ 5	¥ 5	\$ 40
Machinery and equipment	1,927	2,081	15,540
Other	24	20	193
Accumulated depreciation	(1,208)	(1,304)	(9,741)
	¥ 748	¥ 802	\$ 6,032

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Depreciation	¥363	¥393	\$2,927
Interest income	87	144	701

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, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Current obligation	¥ 303	¥ 322	\$2,443
Long-term obligation	822	780	6,629
Present value of lease receipts	¥1,126	¥1,103	\$9,080

19. 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, finance, Leasing and other

The tables below present sales, operating expenses and operating profit information by segment.

	Millions of yen					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Year ended March 31, 2001						
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

17. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2001 for loans guaranteed amounted to ¥4,863 million (US\$39,217 thousand), including ¥2,164 million (US\$17,451 thousand) for unconsolidated subsidiaries and affiliates.

18. 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.

Millions of yen

Year ended March 31, 2000	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥320,708	¥370,166	¥ 8,719	¥699,594	¥ —	¥699,594
Intersegment transfers	20,280	525	6,762	27,568	(27,568)	—
Total	340,988	370,692	15,481	727,163	(27,568)	699,594
Operating expenses	326,218	365,550	14,912	706,681	(20,635)	686,045
Operating profit	¥ 14,770	¥ 5,141	¥ 569	¥ 20,482	¥ (6,933)	¥ 13,549
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥146,601	¥122,860	¥54,337	¥323,798	¥ 37,136	¥360,935
Depreciation and amortization	1,987	1,703	1,066	4,757	(0)	4,756
Capital investment	2,079	2,669	1,199	5,947	(6)	5,941

Thousands of U.S. dollars

Year ended March 31, 2001	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	\$2,160,782	\$3,266,225	\$ 76,008	\$5,503,024	\$ —	\$5,503,024
Intersegment transfers	95,750	1,104	60,911	157,782	(157,782)	—
Total	2,256,540	3,267,338	136,919	5,660,806	(157,782)	5,503,024
Operating expenses	2,215,177	3,133,217	132,733	5,481,137	(107,137)	5,374,000
Operating profit	\$ 41,354	\$ 134,120	\$ 4,185	\$ 179,661	\$ (50,637)	\$ 129,024
Identifiable assets, depreciation and capital investment:						
Identifiable assets	\$1,201,693	\$1,104,669	\$458,153	\$2,764,524	\$ 228,233	\$2,992,758
Depreciation and amortization	14,741	13,830	8,274	36,854	(153)	36,701
Capital investment	20,153	25,362	8,387	53,911	(766)	53,145

Notes 1. Operating expenses in the housing segment were decreased by ¥381 million (US\$3,072 thousand) 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 (US\$566,379 thousand) 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 (US\$508,556 thousand) and ¥6,759 million (US\$54,508 thousand), respectively. Elimination and/or corporate for intersegment transfers were ¥9,645 million (US\$77,782 thousand) for both sales and contract revenues and operating expenses.
3. As stated in Note 11, 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 (US\$564 thousand) and ¥566 million (US\$4,564 thousand), respectively, while operating expenses in the other segment decreased ¥3 million (US\$24 thousand).
4. As stated in Note 3 (2) (D) (F), 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 (US\$1,862 thousand), ¥0 million (US\$0 thousand) and ¥2 million (US\$16 thousand), respectively.

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.

20. RELATED PARTY TRANSACTIONS

Kazuo Kai is a director of the Company.

Transaction with him ended March 31, 2001 and 2000 were as follows;

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Sales	¥23	¥—	\$185
Accounts receivable	15	—	120

Akio Matsushita is a statutory auditor of the Company.

Transaction with him ended March 31, 2001 and 2000 were as follows;

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Sales	¥—	¥28	\$—

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, 2001 and 2000, 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, 2001 and 2000, 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 change, with which we concur, in the labor cost for construction and sales of the construction materials as discussed Note 3.(1).

As described in Notes 3, 11 and 18 to the consolidated financial statements, Sumitomo Forestry Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits and 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, 2001 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.

Tokyo, Japan
June 28, 2001

A handwritten signature in cursive script that reads "Century & Co.".

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.

**OVERSEAS OFFICES
AND SUBSIDIARIES**

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14 Auckland Office
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P.O. Box 91219, Auckland Mail Centre, Level 11, Westpac Tower, 120 Albert Street, Auckland, New Zealand
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Facsimile: 64-9-309-0014

15 Nelson Pine Industries Limited
P.O. Box 3049, Lower Queen Street, Richmond, Nelson, New Zealand
Telephone: 64-3543-8800
Facsimile: 64-3543-8890

AFFILIATED COMPANIES

16 P.T. Kutai Timber Indonesia
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Telephone: 62-21-2521260
Facsimile: 62-21-5200213/5202069

17 Plywood Factory Probolinggo
P.O. Box 101, Probolinggo, Jl. Tanjung Tembaga Baru, Probolinggo, Jawa Timur, Indonesia
Telephone: 62-335-42-2412
Facsimile: 62-335-42-1669

18 Surabaya Office
P.O. Box 306, Surabaya, Jl. Kusuma Bangsa No. 19, Surabaya, Jawa Timur, Indonesia
Telephone: 62-31-5343835
Facsimile: 62-31-5343838

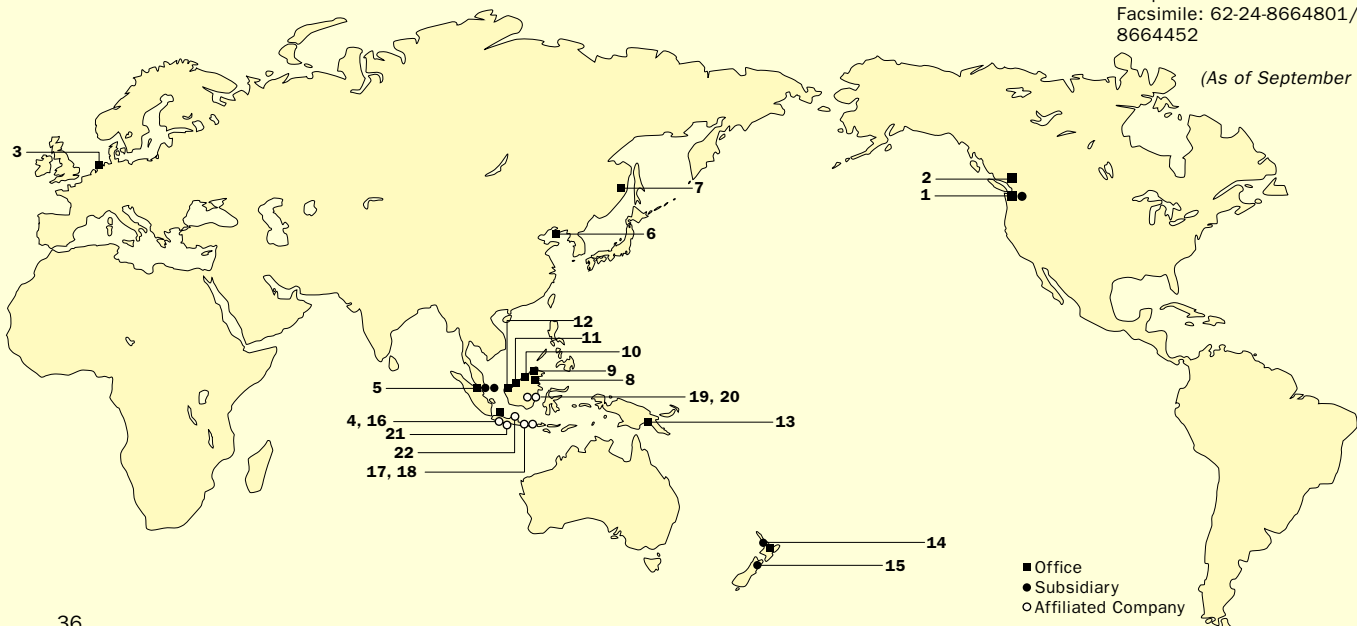
19 Samarinda Office
JL. Basuki Rahmat II, No. 04 RT.V Kelurahan Timur, Indonesia
Telephone: 62-541-741966/737926
Facsimile: 62-541-741967

20 Sebulu Laboratory
Sebul-Kalimantan Timur, Kalimantan Timur, Indonesia
Telephone: 62-541-737436
Facsimile: 62-541-205516

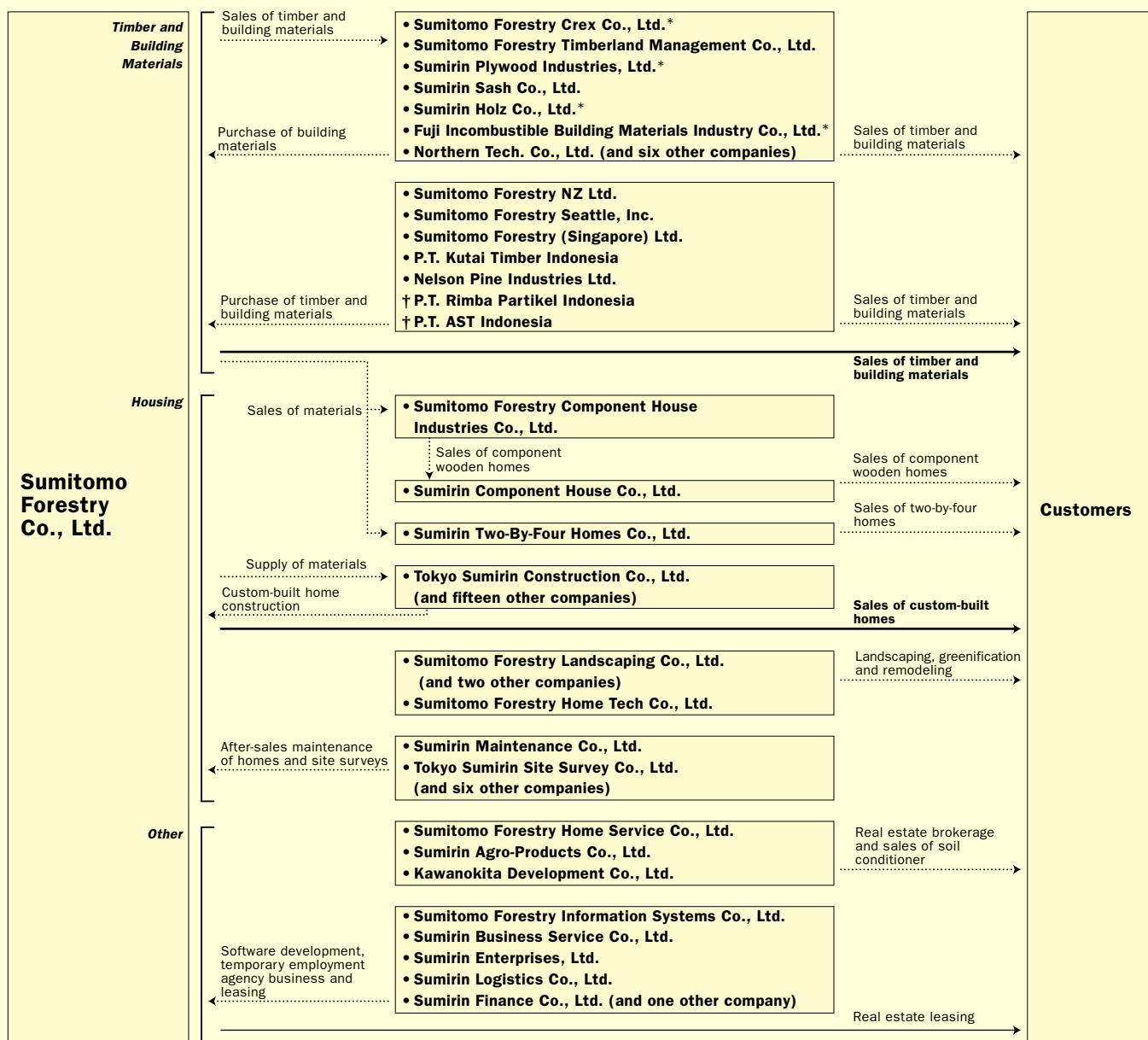
21 P.T. Rimba Partikel Indonesia
Desa. Mororejo, Kaliwungu, Kendal, Jawa Tengah, Indonesia
Telephone: 62-24-8662990
Facsimile: 62-24-8662988/8662993

22 P.T. AST Indonesia
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Facsimile: 62-24-8664801/8664452

(As of September 1, 2001)



SUBSIDIARIES AND AFFILIATES



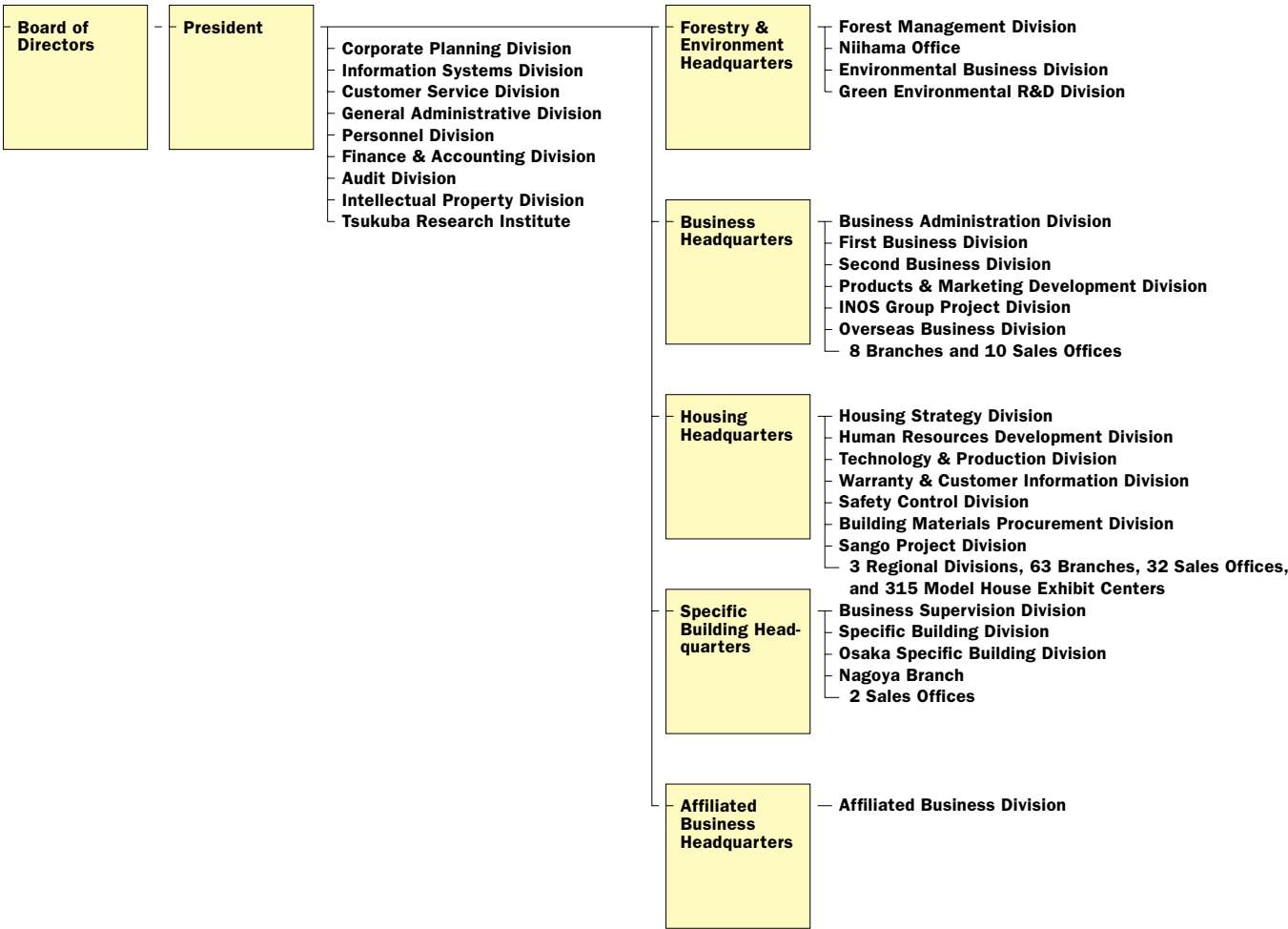
• Consolidated Subsidiary

† Equity-method Affiliate

* Merged in April 2001 to form new subsidiary Sumitomo Forestry Crest Co., Ltd.

(As of March 31, 2001)

ORGANIZATION CHART



(As of April 1, 2001)

CORPORATE DATA

Founded
1691

Incorporated
1948

Stock Exchange Listings
Tokyo, Osaka

Paid-in Capital
¥27,672 million

Head Offices
Tokyo
Shinjuku Green Tower Bldg.,
14-1, Nishi-Shinjuku 6-chome,
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Japan
Telephone:
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Overseas Business Division
81-3-5322-6680
General Administrative Division
81-3-5322-6666
Facsimile:
81-3-5322-6800/6780/6766
URL: <http://www.sfc.co.jp/>

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Kitahama 4-chome, Chuo-ku,
Osaka 541-0041, Japan
Telephone: 81-6-6220-8600
Facsimile: 81-6-6220-8612

Number of Shareholders
14,359

(As of March 31, 2001)

BOARD OF DIRECTORS



*(Front, from left) Yukihiro Goto, Ryu Yano
(Back, from left) Yoshinori Motobayashi, Kanji Sugano*

President/Director

Ryu Yano*

Senior Managing Directors

Yukihiro Goto*
Kanji Sugano*
Yoshinori Motobayashi*

Managing Directors

Masaki Mashita
Yoshihiro Kado
Akihiro Ueda
Nobuo Suzuki

Advisor/Director

Hiroto Yamaguchi

Directors

Junji Ikai
Shuji Kitamura
Joji Itoh
Kazuo Kai
Hideo Kanai
Masayuki Kato
Shoichi Takahashi
Kazushige Yahagi
Ryuichi Takayama

Statutory Auditors

Masahiro Kawachi
Toshio Inoue
Hiroshi Miki
Satohiko Sasaki

**Representative Director*

(As of June 28, 2001)

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