

ANNUAL REPORT 2002
Year ended March 31, 2002

ENSURING FORESTS
REMAIN A RESOURCE
FOR GENERATIONS
TO COME

Since its establishment in 1691, Sumitomo Forestry Co., Ltd. has been engaged in a variety of business fields focused on wood and wood products. Our mission is to give people more opportunities to benefit from the natural aspects of wood, a material whose inherent beauty, solidity and familiarity provide a sense of well-being and security wherever it is used. Sumitomo Forestry contributes to the enhancement of people's lives by providing a broad array of product choices that make the most of the unique qualities of wood.

A Message from the President.....	2
Review of Operations	6
Environmental Stewardship and Corporate Citizenship	14
Research and Development	17
A Total Management Approach to Housing in the Future	18
Financial Section	20
Overseas Network	40
Subsidiaries and Affiliates	41
Organization Chart/Corporate Data	42
Board of Directors, Auditors and Executive Officers	43



LIVING WITH FORESTRY

A Company-owned forest in Hokkaido

MANAGEMENT PRINCIPLES

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

OPERATING ENVIRONMENT

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

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

MANAGEMENT POLICIES AND BUSINESS RESULTS

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

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

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

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

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

	Yen					U.S. dollars
Net income per share	¥ 2.64	¥39.64	¥32.36	¥ 0.76	¥12.17	\$0.02
Cash dividends per share	10.00	10.00	10.00	10.00	10.00	0.07

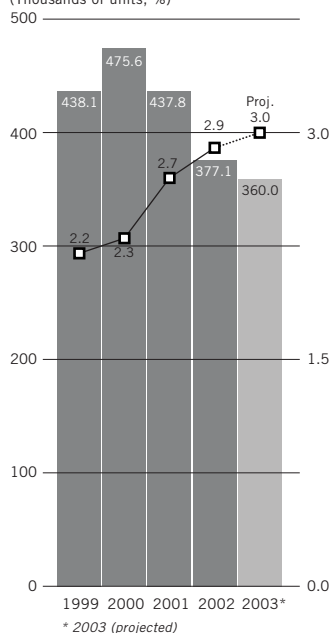
Note: Yen amounts have been translated for convenience only, at ¥132=US\$1.

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

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

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

(Thousands of units, %)



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

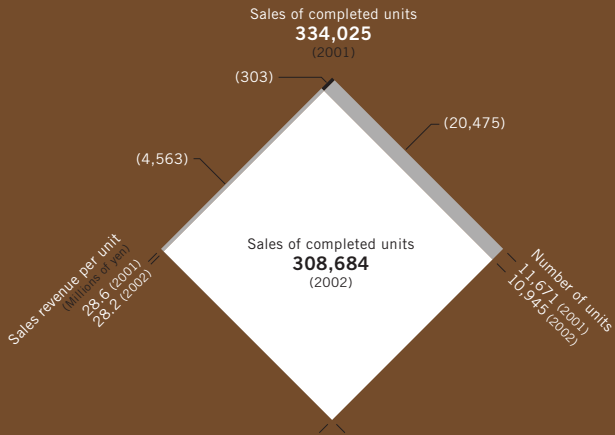
MANAGEMENT RESTRUCTURING PLAN

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

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



SALES AND VARIATION ANALYSIS
OF COMPLETED UNITS
(Millions of yen, Units)



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

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

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

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

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

ENVIRONMENTAL MEASURES

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

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

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



Ryu Yano
President and Chief Executive Officer



TIMBER AND BUILDING MATERIALS



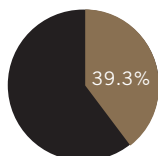
The Timber and Building Materials segment benefited from the demand for housing materials that accompanied the relatively strong starts of apartments and condominiums, as well as from an upswing in production and sales of building materials achieved in overseas subsidiaries and affiliated companies.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

INTERNATIONAL AND DOMESTIC BUSINESS

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

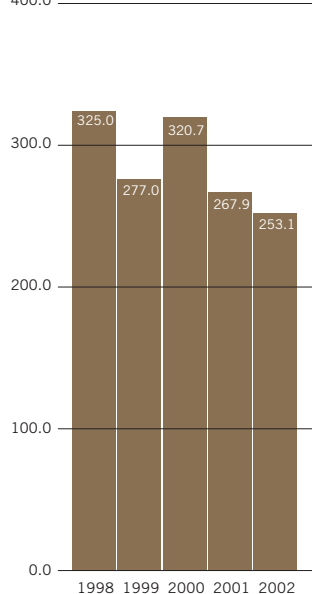
Particular attention was paid to expanding business and hastening growth of the building materials production business overseas, which we have identified as one of the core

PERCENTAGE OF
TOTAL NET SALES (2002)



SALES AND CONTRACT
REVENUES

(Billions of yen)



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

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

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

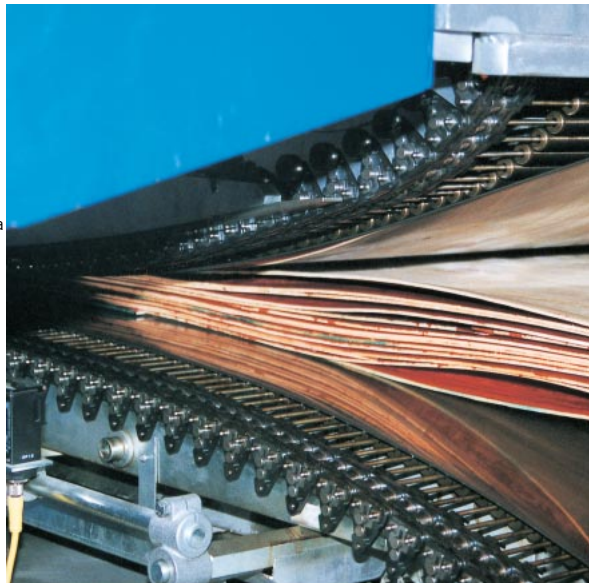
P.T. Rimba Partikel Indonesia (RPI) manufactures particleboard with wood waste collected from regional wood processors and has begun producing saplings that can be used for afforestation, expanding the scale of its business on the twin pillars of environmental preservation and increased profitability.

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

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

LVL is produced using radiata pine veneer.

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



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

DISTRIBUTION BUSINESS

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

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

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

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

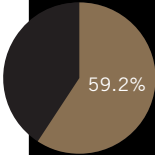


The staffs of KTI measure the growth of the planted Falkata trees used for raw material.



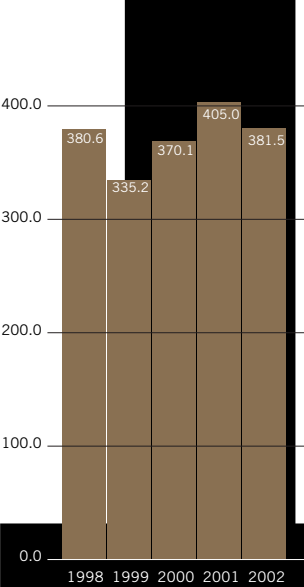
HOUSING AND HOUSING-RELATED BUSINESSES

PERCENTAGE OF
TOTAL NET SALES (2002)



SALES AND CONTRACT
REVENUES

(Billions of yen)



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

HOUSING

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

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

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

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

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

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



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

HOME REMODELING, HOME LANDSCAPING AND OTHER BUSINESSES

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

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

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

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

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



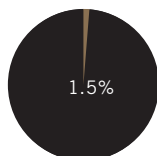
Improving the functionality of wooden houses with numerous tests and certifications



OTHER

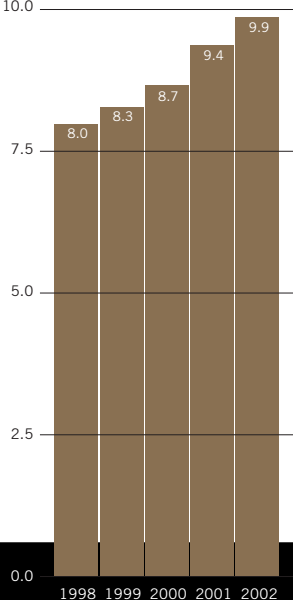


PERCENTAGE OF
TOTAL NET SALES (2002)



SALES AND CONTRACT
REVENUES

(Billions of yen)



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

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

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

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

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

Elephant training center in
the Way Kambas National
Park in Indonesia



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



ENVIRONMENTAL STEWARDSHIP AND CORPORATE CITIZENSHIP



ACQUISITION OF ISO 14001 CERTIFICATION

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

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

FORESTRY MANAGEMENT

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

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



TIMBER AND BUILDING MATERIALS

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

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

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

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

HOUSING CONSTRUCTION

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

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

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

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

ENVIRONMENTAL BUSINESSES

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



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

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

TROPICAL RAIN FOREST REGENERATION PROJECT

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

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



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

SUMITOMO FOREST ECOSYSTEMS

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

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

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

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



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



RESEARCH AND DEVELOPMENT

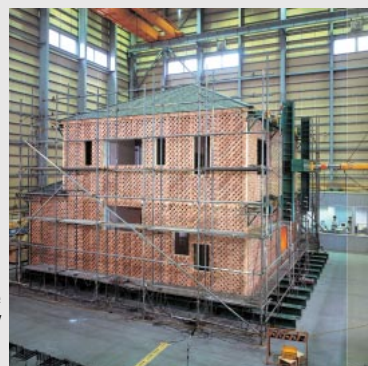
The Sumitomo Forestry Group conducts research and development (R&D) in a variety of fields, from rain forest regeneration to high-quality wooden building materials that are reliable and durable, in order to provide customers with homes that are comfortable and safe. Working mainly from the Tsukuba Research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

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

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

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

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



Sumitomo Forestry boasts a record of approximately 150,000 homes and other buildings delivered since it entered the housing business in 1975. Our custom-built homes are constructed using our proprietary multi-balance method, based on the traditional Japanese post and beam method, but with marked improvements in earthquake and fire resistance, as well as durability. These superior homes are marketed under the “*Sumitomo Ringyo no Ie*” (literally “Sumitomo Forestry Homes”) brand name.

The post and beam method uses a skeletal structure of posts and beams to support the building, as opposed to two-by-four or prefabricated wood-frame buildings in which the support is in the walls. Various architectural styles can be seen in Japan today, but until the first Western styles were introduced just a century ago, all buildings in Japan were made of wood. This is not only because Japan is richly endowed with high-quality, easily processed woods such as *hinoki* cypress, cedar, zelkova and pine, but also because in the highly humid climate of Japan the absorbent properties of wood make wood construction favorable over stone or brick.

Traditionally, construction in the post and beam style relied on the knowledge and skill of the *daiku*, a highly

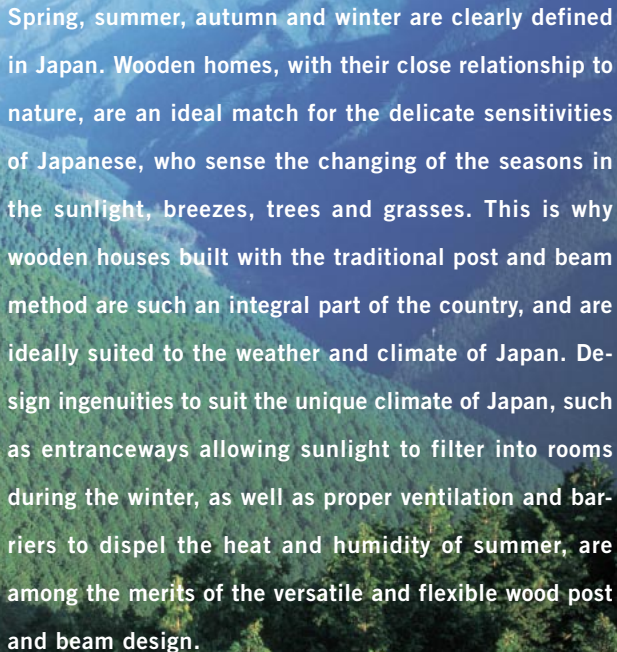
STRENGTH

skilled carpenter or architect using iron saws and planes to split, cut, shape and fit the wood together to construct a building. Today, computer-controlled equipment precuts wood at the factory using cutting-edge technology, greatly reducing the burden on the carpenters. The style of housing that has evolved is more functional and of better quality, offering the unique characteristics of post and beam construction—the spatial concepts and distinctive look—but at the same time enhancing the degree of freedom in the design.

Sumitomo Forestry has drawn on the base of post and beam construction appropriate to the climate of Japan, and in the pursuit of greater strength and livability has employed rigorous quality management in an end-to-end system incorporating material development, design and construction to make well-balanced, superior homes a reality. A “*Sumitomo Ringyo no Ie*” home features spaces that seem to be overflowing with wood interiors, “personal module” plans that allow flexible designs for hallway width of the height and location of windows appropriate to the size, shape and body functionality of the family members, as well as such special arrangements as a barrier-free design, which emphasizes safety. These homes have been highly praised by customers.

An aerial photograph of a vast, dense green forest covering rolling hills and mountains. The forest is a deep, vibrant green, and the terrain is undulating, with hills and valleys visible. In the background, more mountain ranges are visible under a clear sky. The text "4 seasons" is overlaid in a large, white, sans-serif font, centered horizontally and slightly lower vertically.

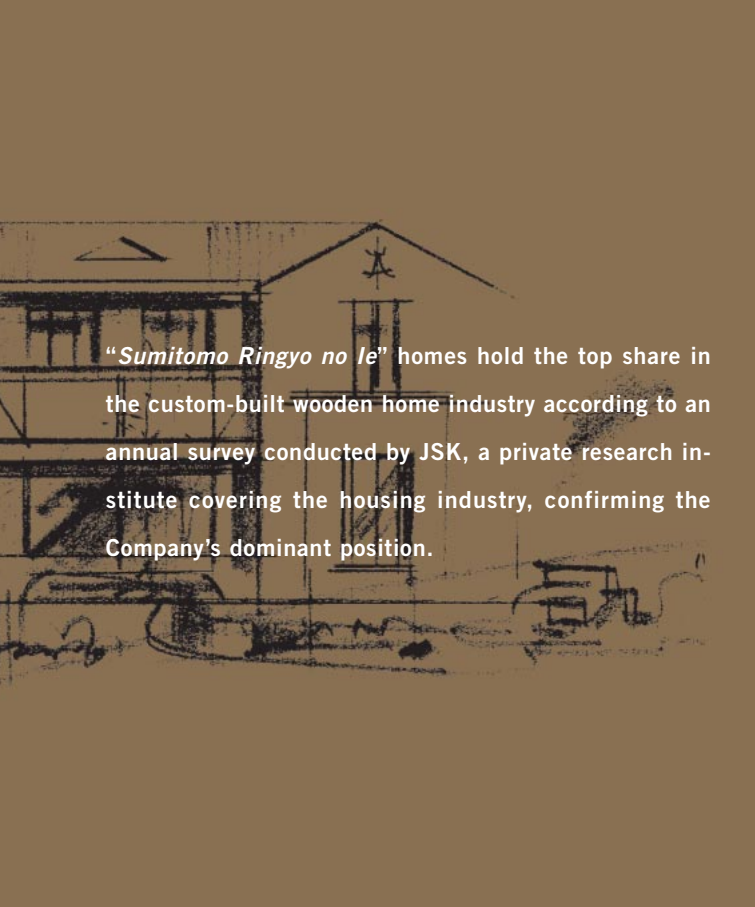
4 seasons

The background image is a scenic landscape of a Japanese mountain range. The foreground is filled with lush, dark green coniferous trees. In the middle ground, a valley is visible, showing a small cluster of buildings and a winding path. The background consists of several layers of mountains, which are rendered in a soft, blue-toned style, creating a sense of depth and atmosphere. The overall lighting is bright, suggesting a clear day.

Spring, summer, autumn and winter are clearly defined in Japan. Wooden homes, with their close relationship to nature, are an ideal match for the delicate sensitivities of Japanese, who sense the changing of the seasons in the sunlight, breezes, trees and grasses. This is why wooden houses built with the traditional post and beam method are such an integral part of the country, and are ideally suited to the weather and climate of Japan. Design ingenuities to suit the unique climate of Japan, such as entranceways allowing sunlight to filter into rooms during the winter, as well as proper ventilation and barriers to dispel the heat and humidity of summer, are among the merits of the versatile and flexible wood post and beam design.

A dark, textured architectural sketch of a building, possibly a house or a small industrial structure, rendered in a charcoal or pencil style. The sketch shows a multi-story building with a gabled roof, a chimney, and various structural elements like beams and windows. The drawing is somewhat abstract and expressive, with heavy shading and visible lines. Overlaid on the sketch is a large, bold, white "#1", which is the central focus of the image. The background is a solid, muted brown color.

#1



"Sumitomo Ringyo no Ie" homes hold the top share in the custom-built wooden home industry according to an annual survey conducted by JSK, a private research institute covering the housing industry, confirming the Company's dominant position.

MORE NUMBERS



11.8 tonf

The vertical load that pillars made from the laminated wood used in “*Sumitomo Ringyo no Ie*” homes can withstand, while the approximate vertical load exerted on pillars in the typical home is only 1 tonf. Laminated wood is a processed material, where lamina 20 to 30 mm thick are bonded together with the wood grain in parallel, offering the benefits of natural wood but with superior strength and quality.

1,050 gal

The approximate acceleration exerted on a typical two-story house during our earthquake tests, which recreate the vertical and horizontal shaking experienced during a seismic event. “*Sumitomo Ringyo no Ie*” homes boast a resistance to earthquakes that exceeds the force of the 7.2 magnitude (818 gal) Great Hanshin Earthquake in 1995.



88.5%

The percentage of Japanese who wish to live in a wooden home one day, according to a survey conducted in 1999 by the Prime Minister's Office (currently the Cabinet Office). This survey reveals the strong attraction and attachment that the Japanese have toward wooden buildings.

THAT COUNT

24 hours,
365 day

A team of specialist engineers is always on call to answer questions or concerns, or to field a repair request. The engineer has access to a central database with a dedicated system that provides details on the layout, specifications and maintenance history of each home, allowing a faster and more appropriate response.



500 points

The number of points rigorously inspected at each stage of construction from start to completion—part of our complete quality management system. This system exceeds the standards for Japanese home construction defined by the Housing Quality Assurance Law, ensuring high-quality living units.



1,300 years

The age of the world's oldest surviving wooden structures, located on the grounds of *Horyu-ji* (Horyu Temple) in Nara, Japan. The traditional post and beam method is used by Sumitomo Forestry today, evolved from these ancient methods.

The Housing Quality Assurance Law that was enacted in April 2000 contained a system for representing the functionality of housing, assigning numerical standards for such quality aspects as strength and durability. Sumitomo Forestry exceeds these demanding high standards by utilizing its vast amount of accumulated expertise, numerous experiments and certifications to support housing construction. We employ a complete quality management system under which over 500 points are subjected to inspection from the start of a project to its completion. Further, at the Tsukuba Research Institute, we perform testing and certification for earthquake resistance, fire resistance and durability, as well as high-precision processing integral to computer-aided design (CAD) and precut technologies.

Furthermore, at the time of the 10-year inspection, Sumitomo Forestry will grant a 10-year extension to the guarantee on the frame of the house if a customer elects to have charged maintenance performed that we agree is necessary. This “20-year guarantee system” aims to offer customers a home in which they can feel at ease. Sumitomo Forestry is also taking a lead in the industry, deploying a system of meticulous after-sales maintenance available by telephone 24 hours a day, 365 days a year, and introducing the Network Aided Construction Support System (NACSS)

IN NUMBERS

with the aim of shortening the construction period and reducing costs. In environmental affairs, Sumitomo Forestry has acquired ISO 14001 certification, the international standard for environmental management, at all domestic branches and sales offices for all housing processes, from design of custom-built homes to completion—the first company in the housing industry to achieve this.

In January 2002, Sumitomo Forestry launched the first housing product in the industry utilizing national standards that employ laminated wood from domestic *hinoki* cypress in the beams and foundation, the structural elements of the house, promoting efficient use of the domestic timber that it will soon be necessary to log as part of proper forest management. By developing and marketing unique wood products such as floor boards for living rooms made from used whiskey barrels, Sumitomo Forestry has earned the favor of its customers.

By continuing to develop products utilizing the collective strengths gathered in its end-to-end business of wood, from forest management, purchase and sale of timber and building materials to the housing business, Sumitomo Forestry will continue to aim for the creation of a home culture that is rich and comfortable.

MARKET OVERVIEW

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

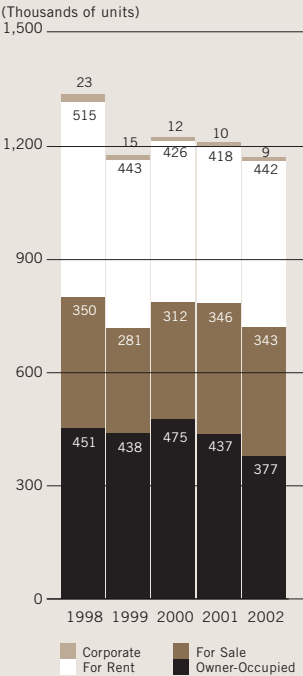
The Japanese economy as a whole declined rapidly during the period under review, as the domestic production industry in Japan saw a downturn in exports and production following the worldwide economic slowdown, and capital investment dropped off. Individual consumption and domestic production was hit by the effects of the decline as well, unemployment was at a record high, the job market became increasingly

tight, and consumer confidence remained low. Moreover, in the second half of the fiscal year under review, apprehension surrounding a possible deflationary spiral rendered conditions even graver.

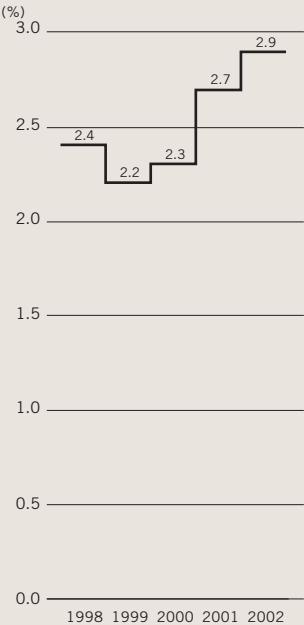
In the housing industry, the extension of a tax system to promote home buying and low interest rates for housing loans have increasingly attracted first-time buyers, mainly in their 30s. However, many people in their 40s and 50s still hold apprehensions regarding future income and employment, and the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

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

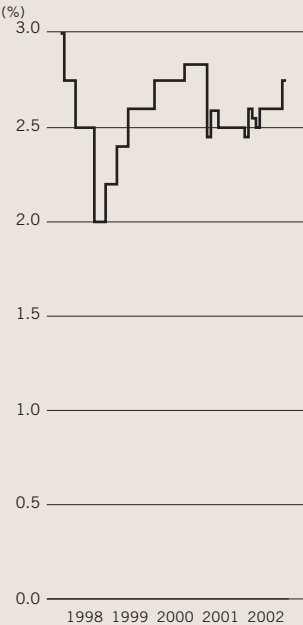
NUMBER OF NEW HOUSING STARTS IN JAPAN



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



HOUSING LOAN CORPORATION STANDARD LOAN RATIO



SCOPE OF CONSOLIDATION

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

OVERVIEW

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

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

SALES AND OTHER INCOME

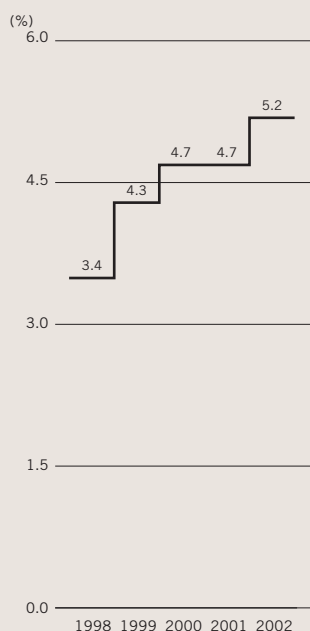
Net sales and contract revenues declined 5.5% to ¥644.7 billion (US\$4,884.3 million).

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

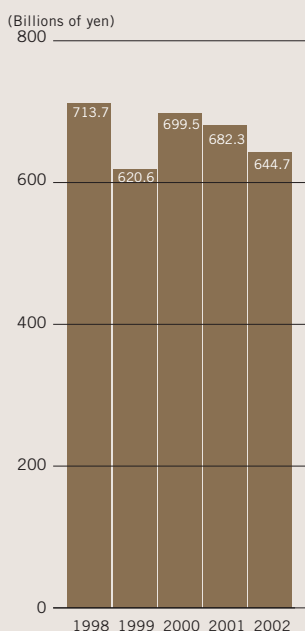
In the Housing segment, sales and contract revenues fell 5.8% to ¥381.5 billion (US\$2,890.8 million). Orders for new detached homes declined 6.1% from the prior fiscal year to 10,685 units, and the number of housing completions decreased 6.0% from the prior fiscal year to 11,008 units. One bright spot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

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

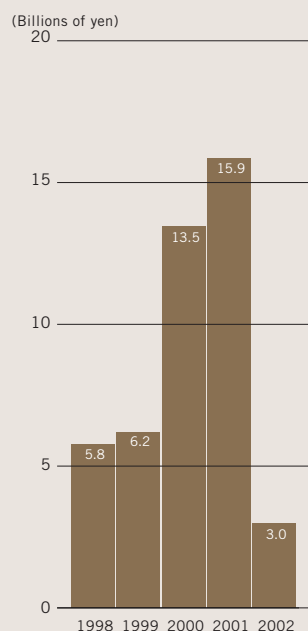
UNEMPLOYMENT RATE



NET SALES AND CONTRACT REVENUES



OPERATING PROFIT



NET INCOME

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

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

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

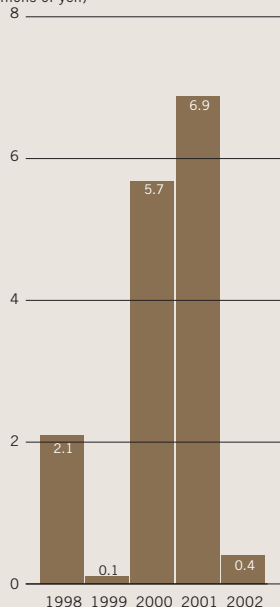
Income before taxes and minority interests was ¥2.7 billion (US\$20.5 million), down 78.6% from the prior year's figure of ¥12.6 billion. Net income was ¥465 million (US\$3.5 million), down 93.3% from the prior year's figure of ¥6.9 billion. Net income per share of common stock was ¥2.64 (US\$0.02),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

CASH FLOWS

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

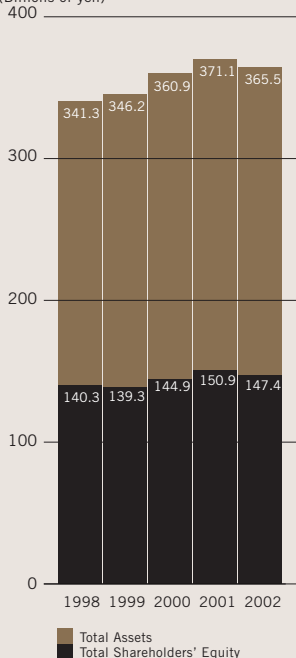
NET INCOME

(Billions of yen)



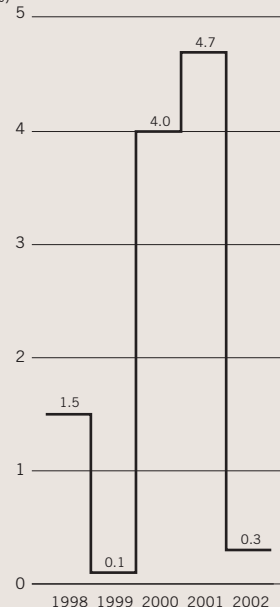
TOTAL ASSETS/ TOTAL SHAREHOLDERS' EQUITY

(Billions of yen)



ROE

(%)



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

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

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

FINANCIAL POSITION

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

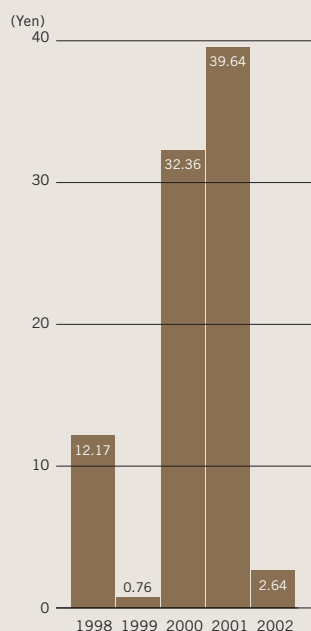
Total current liabilities declined 3.4% to ¥190.4 billion (US\$1,443.0 million). Total long-term liabilities rose 21.1% during the period under review to ¥27.5 billion (US\$208.7 million). Accordingly, total liabilities edged down 0.9% to ¥218.0 billion (US\$1,651.7 million).

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

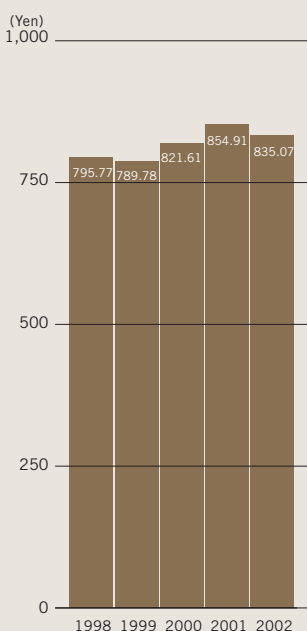
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt and long-term debt) declined 26.1% to ¥18.1 billion (US\$137.3 million).

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

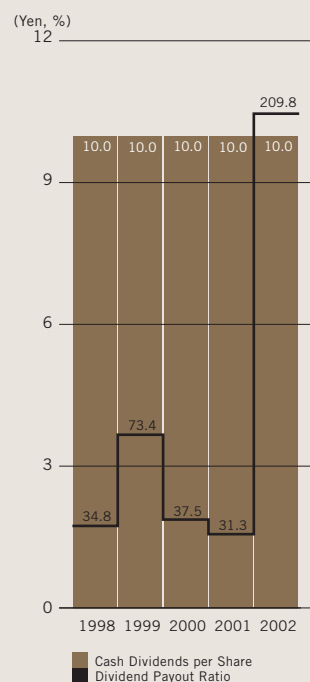
NET INCOME PER SHARE



SHAREHOLDERS' EQUITY PER SHARE



CASH DIVIDENDS PER SHARE/DIVIDEND PAYOUT RATIO



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

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

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
LIABILITIES AND SHAREHOLDERS' EQUITY	2002	2001	2002
Current liabilities:			
Payables—			
Notes and accounts, trade	¥126,728	¥111,892	\$ 960,060
Other	6,483	7,411	49,113
Short-term debt (Note 7)	7,848	8,492	59,454
Current portion of long-term debt (Note 7)	760	10,365	5,757
Advances received from customers	34,561	39,616	261,825
Accrued income taxes	627	6,057	4,750
Accrued employees' bonuses	6,931	7,359	52,507
Other current liabilities	6,541	6,017	49,553
Total current liabilities	190,482	197,213	1,443,045
Long-term liabilities:			
Long-term debt (Note 7)	9,515	5,660	72,083
Deferred income taxes (Note 8)	315	2,839	2,386
Accrued employees' retirement benefits (Note 16)	7,470	4,596	56,590
Other	10,253	9,648	77,674
Total long-term liabilities	27,555	22,744	208,750
Minority interest in consolidated subsidiaries	53	165	401
Contingent liabilities (Note 14)			
Shareholders' equity (Note 12):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 176,603,881 shares	27,672	27,672	209,636
Capital surplus	25,650	25,650	194,318
Retained earnings	94,538	96,861	716,196
Unrealized gain on available-for-sale securities	2,369	4,083	17,946
Foreign currency translation adjustments	(2,760)	(3,287)	(20,909)
Treasury stock (43,551 shares in 2002 and 1,136 shares in 2001)	(30)	(0)	(227)
Total shareholders' equity	147,440	150,979	1,116,969
	¥365,531	¥371,102	\$2,769,174

CONSOLIDATED STATEMENTS OF INCOME

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

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

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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock at cost
Balance as at March 31, 2000	176,381,182	¥ 27,660	¥ 25,490	¥ 91,764	¥ —	¥ —	¥ (1)
Decrease due to change in consolidation of subsidiaries	—	—	—	(73)	—	—	—
Stock issued for summary permutation	222,699	11	159	—	—	—	—
Net income	—	—	—	6,994	—	—	—
Unrealized gain on available-for-sale securities, less applicable tax	—	—	—	—	4,083	—	—
Changes in foreign currency translation	—	—	—	—	—	(3,287)	—
Cash dividends (¥10.00 per share) ..	—	—	—	(1,763)	—	—	—
Bonuses to directors	—	—	—	(60)	—	—	—
Treasury stock sold, net (2,276 shares)	—	—	—	—	—	—	0
Balance as at March 31, 2001	176,603,881	27,672	25,650	96,861	4,083	(3,287)	(0)
Decrease due to change in consolidation of subsidiaries	—	—	—	(43)	—	—	—
Decrease due to change in affiliates using the equity method	—	—	—	(1)	—	—	—
Amount of decrease due to merging of subsidiaries	—	—	—	(913)	—	—	—
Net income	—	—	—	465	—	—	—
Unrealized gain on available-for-sale securities, less applicable tax	—	—	—	—	(1,713)	—	—
Changes in foreign currency translation	—	—	—	—	—	526	—
Cash dividends (¥10.00 per share) ..	—	—	—	(1,766)	—	—	—
Bonuses to directors	—	—	—	(63)	—	—	—
Treasury stock acquired, net (42,415 shares)	—	—	—	—	—	—	(29)
Balance as at March 31, 2002	176,603,881	¥ 27,672	¥ 25,650	¥ 94,538	¥ 2,369	¥ (2,760)	¥ (30)

	Thousands of U.S. dollars (Note 4)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock at cost
Balance as at March 31, 2001	\$209,636	\$194,318	\$733,795	\$30,931	\$(24,901)	\$ (0)
Decrease due to change in consolidation of subsidiaries	—	—	(325)	—	—	—
Decrease due to change in affiliates using the equity method	—	—	(7)	—	—	—
Amount of decrease due to merging of subsidiaries	—	—	(6,916)	—	—	—
Net income	—	—	3,522	—	—	—
Unrealized gain on available-for-sale securities, less applicable tax	—	—	—	(12,977)	—	—
Changes in foreign currency translation	—	—	—	—	3,984	—
Cash dividends (\$0.07 per share) ..	—	—	(13,378)	—	—	—
Bonuses to directors	—	—	(477)	—	—	—
Treasury stock acquired, net (42,415 shares)	—	—	—	—	—	(219)
Balance as at March 31, 2002	\$209,636	\$194,318	\$716,196	\$17,946	\$(20,909)	\$(227)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations that include the construction, sale, after-sales maintenance and landscaping of custom-built and other homes; and other lifestyle-related businesses, including the sale and brokerage of real estate, leasing and golf course management.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (together, the "Companies") are English versions of those which have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan and filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

As permitted amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of individual amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting Changes

(A) LABOR COSTS FOR CONSTRUCTION

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

(B) SALES OF THE CONSTRUCTION MATERIALS

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

(C) RETIREMENT BENEFITS TO DIRECTORS AND CORPORATE AUDITORS

Until the year ended March 31, 2001, retirement benefits for the Company's directors and corporate auditors were charged to income when paid. Effective April 1, 2001, the Company changed its accounting method to provide for retirement benefits for directors and corporate auditors to state the liability at 100% of the amount required by the Company's internal regulation in order to achieve a better matching of revenues and expenses by allocating the retirement benefits for directors and corporate auditors over the related service periods and to establish a solid financial position.

The effect of this change was to decrease operating income by ¥87 million (US\$659 thousand) and income before income taxes and minority interests by ¥629 million (US\$4,765 thousand) for the year ended March 31, 2002, compared with the case on which the previous method was adopted, respectively.

(2) Significant Accounting Policies

(A) BASIS OF CONSOLIDATION AND INVESTMENTS IN AFFILIATES

The consolidated financial statements include the accounts of the Company and, with exceptions which are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(B) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS AND ACCOUNTS

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

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

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical rates.

(C) STATEMENTS OF CASH FLOWS

The statements of cash flows, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of changes in value.

(D) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

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

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

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

(E) ACCRUED EMPLOYEES' BONUSES

Accrued employees' bonuses has been provided based on estimated bonuses to be paid to employees, which should be charged to income in the current year.

(F) WARRANTY RESERVE FOR COMPLETED CONSTRUCTION

A warranty reserve has been provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The warranty reserve for completed constructions is included in other current liabilities.

(G) ACCRUED EMPLOYEES' RETIREMENT BENEFITS

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the position assets at year-end.

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

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

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

(H) ACCRUED RETIREMENT BENEFITS TO DIRECTORS AND CORPORATE AUDITORS

Accrued retirement benefits to directors and corporate auditors are provided based on the amount required for the year-end in accordance with the established Company's internal regulations. Any amounts eventually payable to directors and corporate auditors upon retirement are subjected to approval by the shareholders.

(I) MARKETABLE SECURITIES AND INVESTMENTS

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

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

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

The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the short term, are reported at fair value, and the related unrealized gains and losses are included in earnings; ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

The Company determines cost of securities sold by the moving average method.

(J) INVENTORIES

Inventories other than finished goods are stated at cost, which is determined by the specific identification method. Finished goods are stated at moving average cost.

(K) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs and minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

Japanese tax regulations allow a company to defer capital gains on the sale of real estate if the company intends to offset such gains against the cost of newly acquired fixed assets. When such accounting is followed, the cost of the new fixed assets is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation.

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

(L) TIMBERLAND

Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost. The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1-6	Weeding
8	Vine cutting
10-14	Salvage cutting
14	Pruning
16-25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(M) SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS

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

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

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

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

(N) REVENUE RECOGNITION

Sales are generally recognized at the time the goods are delivered to the customers.

Sales of pre-cut timber, building materials and certain housing equipment, such as system kitchens, system furniture, bathtubs, sinks and other, which are purchased by the Company and sold to building contractors for use in house building projects specifically subcontracted from the Company, are recognized upon completion and acceptance of the completed houses by the customers, with the related cost being included in cost of contracts completed.

Contract revenues, representing revenues from custom-built houses, are recorded when the completed houses are accepted by customers.

(O) FINANCE LEASES

Finance leases of the Companies, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(P) INCOME TAXES AND RETAINED EARNINGS APPROPRIATED FOR SPECIAL RESERVES

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

The Companies are permitted to deduct for tax purposes certain special reserves if they are recorded in their books as appropriations of retained earnings or as charges to income. The special reserves, when reversed to unappropriated retained earnings or returned to income, become taxable. The effect of the reserves is a deferral of income taxes.

(Q) APPROPRIATIONS OF RETAINED EARNINGS

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded upon approval by the shareholders as required under Japanese law.

(R) EARNINGS PER SHARE OF COMMON STOCK

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

(S) RECLASSIFICATIONS

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

4. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥132=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2002. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2002 were as follows:

	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale:				
Equity securities ...	¥15,525	¥6,022	¥(1,927)	¥19,621
Debt securities ...	—	—	—	—
Held-to-maturity:				
Debt securities ...	16,396	—	—	16,396

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

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

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

The difference between the above carrying value and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

6. TIMBERLAND

The investment in timberland at March 31, 2002 and 2001 comprised:

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

The timberland accounts at March 31, 2002 and 2001 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of timberland:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
	¥268	¥268	\$2,030

7. SHORT-TERM AND LONG-TERM DEBT

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

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

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

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

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

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

8. INCOME TAXES

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory rates are approximately 42.0% for both 2002 and 2001.

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

Statutory tax rate	42.0%
Non-deductible expense for tax purposes	9.9
Per capita portion of Inhabitant Tax	7.8
Valuation allowance	22.0
Other	(2.8)
Effective income tax rate	78.9%

The significant components of deferred tax assets and liabilities at March 31, 2002 are as follows:

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

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

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

9. OTHER GAINS (LOSSES), NET

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

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

10. RESEARCH AND DEVELOPMENT EXPENSES

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

11. CASH AND CASH EQUIVALENTS

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

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

12. SHAREHOLDERS' EQUITY

On October 1, 2001, an amendment to the Japanese Commercial Code (the "Code") became effective. The amendment eliminates the stated par value of the Company's shares, which resulted in all outstanding shares having no par value at March 31, 2002. The amendment also provides that all issuances after September 30, 2001, will be of shares with no par value. Before the date on which the amendment came into effect, the Company's share of common stock account had a par value of ¥50 per share.

Under the Code, at least 50% of the issue price of new shares is required to be designated as the common stock account. The portion to be designated as the common stock account is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as the common stock account are credited to capital surplus account.

The Code provides that an amount equivalent to a minimum of 10% of cash dividends and other distributions from retained earnings paid by the Company and its subsidiaries be appropriated as a legal reserve. No further appropriation is required when the total amount of capital surplus account and legal reserve equals 25% of the common stock account. The balance of the reserve may be used to reduce a deficit and/or may be transferred to the common stock account.

The Code also provides that, to the extent the sum of capital surplus account and legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders meeting.

The balances of the legal reserve of the Company at March 31, 2002 and 2001, which are included in retained earnings on the accompanying consolidated balance sheets, are ¥2,857 million (US\$21,643 thousand) and ¥2,764 million, respectively.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code. Year-end dividends are reflected in the consolidated statements of shareholders' equity when authorized.

As of March 31, 2002, the total amount available for dividends from the Company was ¥84,411 million (US\$639,477 thousand). This figure is included in retained earnings as recorded on the Company's consolidated books.

13. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2002 and 2001 were ¥5,710 million (US\$43,257 thousand) and ¥5,178 million, respectively.

The leased assets and related expenses of the Companies' finance leases, other than those where the ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Buildings and structures	¥ 14,149	¥ 13,357	\$107,189
Machinery and equipment	8,937	8,642	67,704
Other	213	236	1,613
Accumulated depreciation	(12,022)	(10,844)	(91,075)
	¥ 11,277	¥ 11,391	\$ 85,431

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

Depreciation costs are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as at March 31, 2002 and 2001 are as follows:

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

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2002 and 2001 are ¥592 million (US\$4,484 thousand) and ¥557 million, respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the leased assets is transferred to the lessee and are being accounted for as operating leases at March 31, 2002 and 2001, comprise the following:

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

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

Interest income is calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest receipts over the lease periods, are allocated to each period by the interest method. The present values of future lease receipts for the Companies at March 31, 2002 and 2001 are as follows:

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

14. CONTINGENT LIABILITIES

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

15. DERIVATIVES AND HEDGING ACTIVITIES

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps, and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

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

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

16. SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS

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

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

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

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

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

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

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

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

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

Discount rate	3.5%
Expected rate of return on plan assets	3.5%
Recognition period of actuarial gain/loss	5 years

17. SEGMENT INFORMATION

a) Industry segment information—

The Companies' business is classified into the following three segments based on the similarities of the types and nature of business:

Timber and building materials: Manufacturing or purchasing and sale of timber and building materials

Housing: Construction of houses, buildings and their exteriors, gardening, planting and sale of interiors

Other: Brokerage of real estate, golf course management, leasing and other

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

	Millions of yen					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Year ended March 31, 2002						
Sales and contract revenues:						
Unaffiliated customers	¥253,154	¥381,588	¥ 9,987	¥644,730	¥ —	¥ 644,730
Intersegment transfers	17,701	389	8,063	26,154	(26,154)	—
Total	270,856	381,978	18,050	670,885	(26,154)	644,730
Operating expenses	268,973	377,016	17,470	663,461	(21,770)	641,690
Operating profit	¥ 1,882	¥ 4,961	¥ 579	¥ 7,424	¥ (4,384)	¥ 3,040
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥142,427	¥150,358	¥42,338	¥335,124	¥ 30,407	¥ 365,531
Depreciation and amortization	2,101	2,247	976	5,325	(35)	5,289
Capital investment	6,081	3,083	1,064	10,228	(104)	10,124
	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
	Thousands of U.S. dollars					
	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Year ended March 31, 2002						
Sales and contract revenues:						
Unaffiliated customers	\$1,917,833	\$2,890,818	\$ 75,659	\$4,884,318	\$ —	\$4,884,318
Intersegment transfers	134,098	2,946	61,083	198,136	(198,136)	—
Total	2,051,939	2,893,772	136,742	5,082,462	(198,136)	4,884,318
Operating expenses	2,037,674	2,856,181	132,348	5,026,219	(164,924)	4,861,287
Operating profit	\$ 14,257	\$ 37,583	\$ 4,386	\$ 56,242	\$ (33,212)	\$ 23,030
Identifiable assets, depreciation and capital investment:						
Identifiable assets	\$1,078,992	\$1,139,075	\$320,742	\$2,538,818	\$ 230,356	\$2,769,174
Depreciation and amortization	15,916	17,022	7,393	40,340	(265)	40,068
Capital investment	46,068	23,356	8,060	77,484	(787)	76,696

Notes: (Year ended March 31, 2001)

- Operating expenses in the housing segment were decreased by ¥381 million due to a change in accounting method for labor costs for construction in the term under review as stated in Note 3 (1) (A).
- Sales and contract revenue in the timber and building materials segment were decreased by ¥70,231 million due to a change in accounting method for sales of the construction materials in the term under review as stated in Note 3 (1) (B). Operating expenses in the timber and building materials segment and housing segment were decreased by ¥63,061 million and ¥6,759 million, respectively. Elimination and/or corporate for intersegment transfers were ¥9,645 million for both sales and contract revenues and operating expenses.
- As stated in Note 16, the Company adopted new accounting standards for retirement benefits from the term under review. As a result, operating expenses in the timber and building materials segment and the housing segment increased ¥70 million and ¥566 million, respectively, while operating expenses in the other segment decreased ¥3 million.
- As stated in Note 3 (2) (D) (I), the Company adopted new accounting standards for financial instruments from the term under review. As a result, operating expenses in the timber and building materials segment, housing segment and others segment were decreased by ¥231 million, ¥0 million and ¥2 million, respectively.
- (Year ended March 31, 2002)
- As stated in Note 3 (1) (C), the Company changed accounting policy for retirement benefits to directors and corporate auditors during the term under review. As a result, as compared with the previous accounting method for retirement benefits, operating expenses contained in Elimination and/or corporate increased by ¥87 million (US\$659 thousand), and operating income declined by the same amount.

b) Geographic area information and export sales information—

As the total sales by consolidated subsidiaries outside Japan and the total export sales overseas are less than 10% of consolidated net sales, information relating to geographic area information and export sales information has been omitted.

18. RELATED PARTY TRANSACTIONS

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

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

INDEPENDENT AUDITORS' REPORT

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

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

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period, except for the changes, with which we concur, in the labor cost for construction, sales of the construction materials and retirement benefits to directors and corporate auditors as discussed Note 3.(1).

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.



Tokyo, Japan
June 27, 2002

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

OVERSEAS NETWORK

OVERSEAS OFFICES AND SUBSIDIARIES

- 1 Seattle Office/
Sumitomo Forestry Seattle, Inc.**
1000 Second Avenue, Suite
1220, Seattle, Washington
98104, U.S.A.
Tel: 1-206-623-8840
Fax: 1-206-345-0391
E-mail: sfc@hitmark.com
- 2 Vancouver Office**
460, 1140 West Pender Street,
Vancouver, British Columbia,
Canada, V6E 4G1
Tel: 1-604-681-8184
Fax: 1-604-681-6568
E-mail: sfc@sfcvcr.com
- 3 Amsterdam Office**
Rivierstaete Building, 3rd
Floor No. 22, Amsteldijk 166
1079LH, Amsterdam,
The Netherlands
Tel: 31-20-646-4140
Fax: 31-20-646-5372
E-mail: sfc3@smtforams.nl
- 4 Jakarta Office**
Summitmas II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel: 62-21-5200268
Fax: 62-21-5202069
E-mail: sfcjkt@cbn.net.id
- 5 Singapore Office/
Sumitomo Forestry
(Singapore) Ltd.**
6 Raffles Quay #14-04/05,
John Hancock Tower.
Singapore 048580
Tel: 65-6435-0150
Fax: 65-6435-0151
E-mail: adm@sfspsore.com.sg
- 6 Khabarovsk Office**
"PARUS HOTEL" 208,
5, Shevchenko Street,
Khabarovsk 680000, Russia
Tel: 7-4212-32-68-58
Fax: 7-4212-32-83-61
E-mail: sfc@inter.global-one.ru

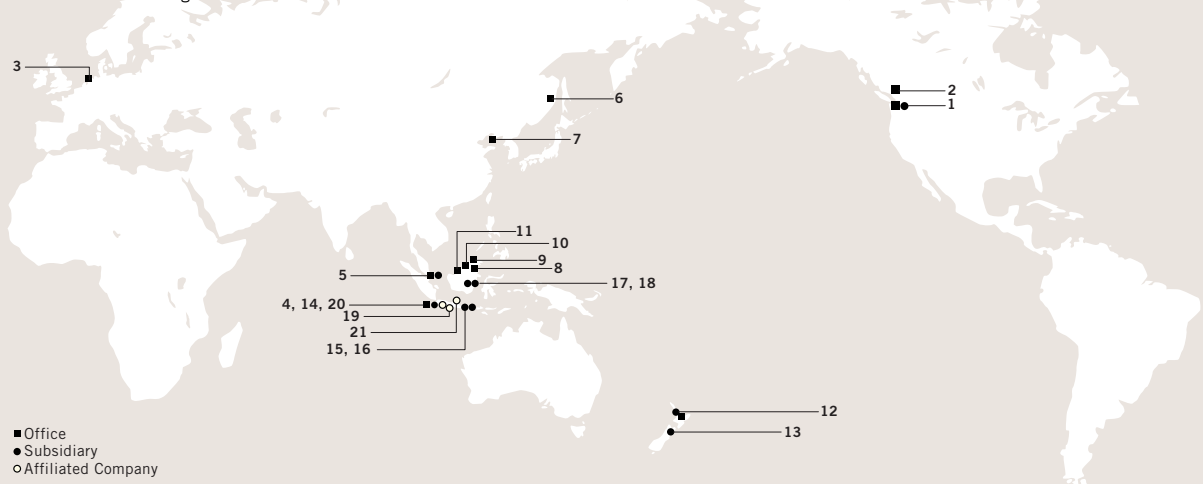
- 7 Dalian Office**
Senmao Building, 13th Floor,
147 Zhongshan Road, Xigang
District Dalian, 116011, PRC
Tel: 86-411-367-8060/8062
Fax: 86-411-367-8061
E-mail: sfc@online.ln.cn
- 8 Tawau Office**
P.O. Box 946, 91008,
Tawau, Sabah, Malaysia
Tel: 60-89-772979
Fax: 60-89-761060
- 9 Kota Kinabalu Office**
Lot 1-5-E4, 5th Floor, Centre
Point Sabah, No. 1, Jalan
Centre Point, 88000, Kota
Kinabalu, Sabah, Malaysia
Tel: 60-88-242031
Fax: 60-88-268031
E-mail: sfc@tm.net.my
- 10 Miri Office**
P.O. Box 493, 98007, Lot 231
No.15, Hokkien Road, Miri,
Sarawak, Malaysia
Tel: 60-85-413459
Fax: 60-85-413598
E-mail: sfc@miri@tm.net.my
- 11 Sibul Office**
P.O. Box. 1563, 96008, No. 52,
2nd Floor, Tanahmas Building,
Kg. Nyabor, Sibul, Sarawak,
Malaysia
Tel: 60-84-312777
Fax: 60-84-317635
- 12 Auckland Office/
Sumitomo Forestry NZ Limited**
P.O. Box. 91219, Auckland
Mail Centre, Level 11,
Westpac Tower, 120 Albert
Street, Auckland,
New Zealand
Tel: 64-9-309-0012
Fax: 64-9-309-0014
E-mail: sfnz@xtra.co.nz/
sumitomo@xtra.co.nz

- 13 Nelson Pine Industries Limited**
P.O. Box. 3049, Lower Queen
Street, Richmond, Nelson,
New Zealand
Tel: 64-3543-8800
Fax: 64-3543-8890
E-mail: sfc@nelsonpine.co.nz
- 14 P.T. Kutai Timber Indonesia**
P.O. Box. 6913/JKSST,
Summitmas II, 8th Floor,
JL. Jend. Sudirman Kav. 61-62,
Jakarta 12190, Indonesia
Tel: 62-21-2521260
Fax: 62-21-5200213
- 15 Plywood Factory
Probolinggo**
P.O. Box. 101 Probolinggo,
JL. Tanjung Tembaga Baru,
Probolinggo, Jawa Timur,
Indonesia
Tel: 62-335-42-2412
Fax: 62-335-42-1669
E-mail: kti-acc@probolinggo.
wasantara.net.id
- 16 Surabaya Office**
P.O. Box. 306, Surabaya,
JL. Kusuma Bangsa No. 19,
Surabaya, Jawa Timur,
Indonesia
Tel: 62-31-5343835
Fax: 62-31-5343838
- 17 Samarinda Office**
JL. Basuki Rahmat II No. 04,
RT.V Kelurahan Timur,
Indonesia
Tel: 62-541-741966/
737926
Fax: 62-541-741967
- 18 Sebulu Laboratory**
Sebulu-Kalimantan Timur,
Kalimantan Timur,
Indonesia
Tel: 62-541-737436
Fax: 62-541-205516
E-mail: ktisbl@smd.mega.net.id

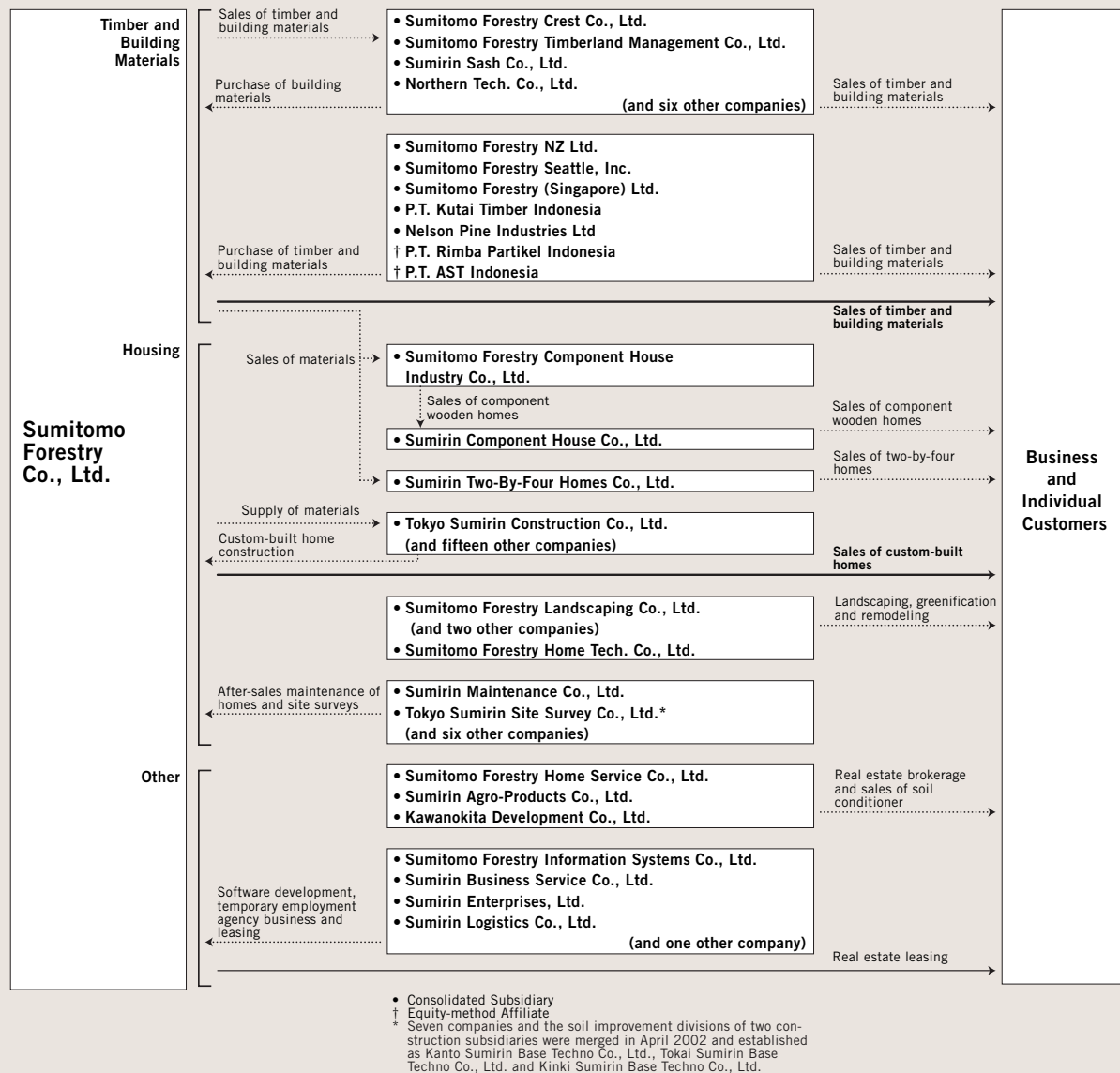
AFFILIATED COMPANIES

- 19 P.T. Rimba Partikel Indonesia**
P.O.Box. 127 KENDAL
Desa. Mororejo, Kaliwungu,
Kendal, Jawa Tengah,
Indonesia
Tel: 62-24-8662990
Fax: 62-24-8662988/8662993
E-mail: rpisrg@indosat.net.id
- 20 Jakarta Office**
Gedung Idola Tunggal
Slipi, JL. Letjen S.Parmar
Kav.67, Jakarta 11410,
Indonesia
Tel: 62-21-5321637
Fax: 62-21-5301313
E-mail: rimbajkt@cbn.net.id
- 21 P.T. AST Indonesia**
KITW Technopark Blok A-01,
JL. Raya Semarang-Kendal
KM. 12, Semarang, Indonesia
Tel: 62-24-8664800
Fax: 62-24-8664801/8664452

(As of July 1, 2002)

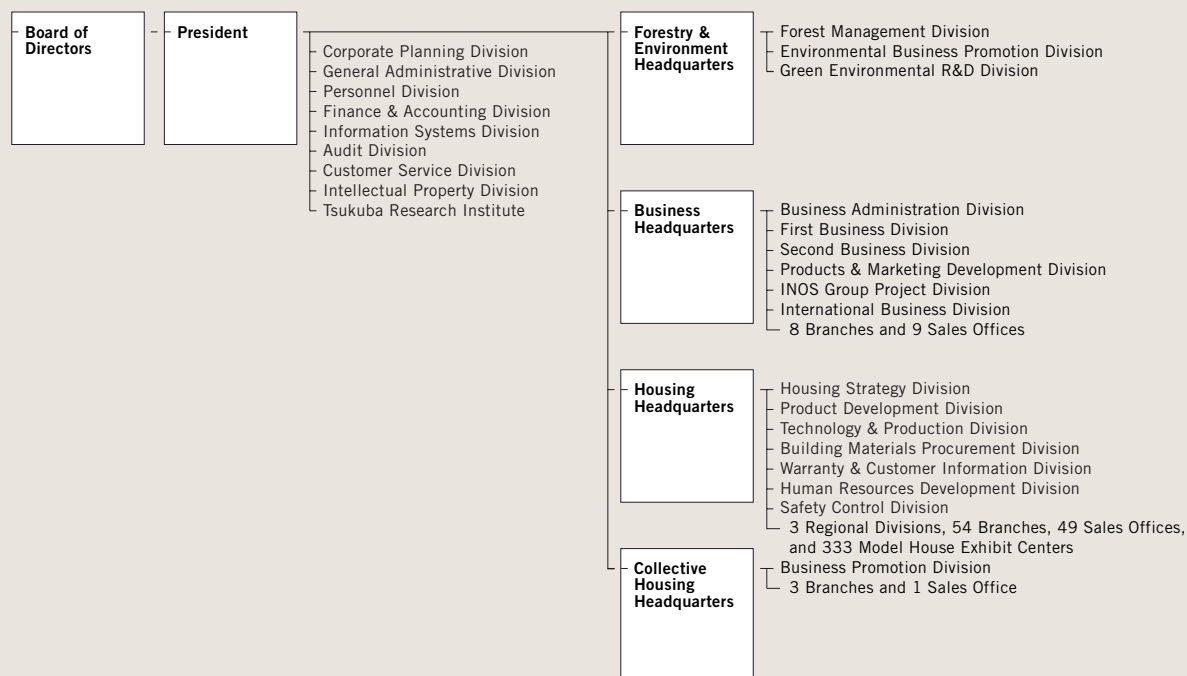


SUBSIDIARIES AND AFFILIATES



(As of March 31, 2002)

ORGANIZATION CHART



(As of July 1, 2002)

CORPORATE DATA

Founded

1691

Incorporated

1948

Stock Exchange Listings

Tokyo, Osaka

Paid-in Capital

¥27,672 million

Head Office (Tokyo)

Shinjuku Green Tower Building,
14-1, Nishi-Shinjuku 6-chome,
Shinjuku-ku, Tokyo 160-8360, Japan

First Business Division

Tel: 81-3-5322-6700

Fax: 81-3-5322-6800

International Business Division

Tel: 81-3-5322-6680

Fax: 81-3-5322-6780

General Administrative Division

Tel: 81-3-5322-6666

Fax: 81-3-5322-6766

URL: <http://www.sfc.co.jp/>

Head Office (Osaka)

Sumitomo Building No. 2,
7-28, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

Tel: 81-6-6220-8600

Fax: 81-6-6220-8612

Number of Shareholders

13,518

(As of March 31, 2002)



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

DIRECTORS AND AUDITORS

Directors

Ryu Yano*
Yukihiko Goto*
Kanji Sugano*
Akihiro Ueda*
Nobuo Suzuki
Shuji Kitamura
Kazuo Kai

(*Representative Director)

Statutory Auditors

Yoshihiro Kado
Masahiro Kawachi
Toshio Inoue
Hiroshi Miki
Satohiko Sasaki

EXECUTIVE OFFICERS

President and Chief Executive Officer

Ryu Yano

Vice Presidents and Executive Officers

Yukihiko Goto
Kanji Sugano

Senior Executive Officer

Akihiro Ueda

Managing Executive Officers

Nobuo Suzuki
Shuji Kitamura
Kazuo Kai
Junji Ikai

Executive Officers

Joji Itoh
Hideo Kanai
Masayuki Kato
Shoichi Takahashi
Kazushige Yahagi
Ryuichi Takayama
Shoichi Iwasa
Shinichi Miyake
Hideki Nose

(As of June 27, 2002)

Head Office (Tokyo)

Shinjuku Green Tower Building,
14-1, Nishi-Shinjuku 6-chome,
Shinjuku-ku, Tokyo 160-8360, Japan
Tel: 81-3-5322-6666
Fax: 81-3-5322-6766

Head Office (Osaka)

Sumitomo Building No. 2,
7-28, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan
Tel: 81-6-6220-8600
Fax: 81-6-6220-8612

URL: <http://www.sfc.co.jp/>