

[TRANSLATION]

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## **MATTERS AVAILABLE ON THE WEBSITE IN RELATION TO THE NOTICE OF CONVOCATION OF THE 77TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

### **Consolidated Financial Statements**

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(from April 1, 2016 to March 31, 2017)

**Sumitomo Forestry Co., Ltd.**

The information above is made available on the Company’s website (<http://sfc.jp/english>) pursuant to the relevant laws and regulations, and Article 17 of the Articles of Incorporation of the Company.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2017

(Million yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period   | 27,672               | 26,872          | 166,762           | (278)          | 221,028                    |
| Amount of financial impact arising from finalization of provisional accounting treatment               |                      |                 |                   |                |                            |
| Balance at the beginning of current period reflecting finalization of provisional accounting treatment | 27,672               | 26,872          | 166,762           | (278)          | 221,028                    |
| Changes during the period  |                      |                 |                   |                |                            |
| Dividends from surplus   |                      |                 | (4,782)           |                | (4,782)                    |
| Net income attributable to owners of parent  |                      |                 | 34,532            |                | 34,532                     |
| Purchase of treasury stock   |                      |                 |                   | (2)            | (2)                        |
| Change in ownership interest of parent due to transactions with non-controlling interests              |                      | (8,234)         |                   |                | (8,234)                    |
| Net changes in items other than shareholders' equity   |                      |                 |                   |                |                            |
| Total changes during the period  | -                    | (8,234)         | 29,749            | (2)            | 21,512                     |
| Balance at the end of current period   | 27,672               | 18,637          | 196,511           | (280)          | 242,541                    |

|  | Accumulated other comprehensive income                |                                    |   |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at the beginning of current period   | 16,270  | (58)                               | 6,497                                   | (276)                                   | 22,432                                       | 36                            | 20,631                    | 264,127          |
| Amount of financial impact arising from finalization of provisional accounting treatment               |   |                                    |   |   |  |                               | 1,130                     | 1,130            |
| Balance at the beginning of current period reflecting finalization of provisional accounting treatment | 16,270  | (58)                               | 6,497                                   | (276)                                   | 22,432                                       | 36                            | 21,761                    | 265,257          |
| Changes during the period  |   |                                    |   |   |  |                               |                           |                  |
| Dividends from surplus   |   |                                    |   |   |  |                               |                           | (4,782)          |
| Net income attributable to owners of parent  |   |                                    |   |   |  |                               |                           | 34,532           |
| Purchase of treasury stock   |   |                                    |   |   |  |                               |                           | (2)              |
| Change in ownership interest of parent due to transactions with non-controlling interests              |   |                                    |   |   |  |                               |                           | (8,234)          |
| Net changes in items other than shareholders' equity   | 9,627   | (22)                               | 377                                     | (44)                                    | 9,938  | 46                            | (1,410)                   | 8,575            |
| Total changes during the period  | 9,627   | (22)                               | 377                                     | (44)                                    | 9,938  | 46                            | (1,410)                   | 30,087           |
| Balance at the end of current period   | 25,896  | (80)                               | 6,874                                   | (320)                                   | 32,370                                       | 82                            | 20,352                    | 295,344          |

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Significant fundamental accounting policies for preparing consolidated financial statements**

#### 1. Scope of consolidation

There are 103 consolidated subsidiaries. The principal consolidated subsidiaries are Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Residential Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., PT. Kutai Timber Indonesia, the Henley Group (Henley Arch Unit Trust and eight other companies), Nelson Pine Industries Ltd., the DRB Group (DRB Enterprises, LLC and seven other companies), the MainVue Homes Group (MainVue Homes LLC and two other companies) and the Gehan Homes Group (Gehan Homes, Ltd. and six other companies).

Beginning the consolidated fiscal year under review, the Wisdom Group (Wisdom Properties Group Pty Ltd. and three other companies), the Edge Homes Group (Edge Utah HoldCo, LLC and seventeen other companies), in which a stake was newly acquired, and the newly established Tasman Pine Forests Ltd. are included in the scope of consolidation.

Conversely, all shares of Kowa Lumber Co., Ltd., Cascadia Resort Communities LLC and Sumitomo Forestry (Shanghai) Ltd., which were consolidated subsidiaries in the previous consolidated fiscal year, have been liquidated, and all shares of Alpine MDF Industries Pty Ltd. have been sold, so they have been removed from the scope of consolidation.

#### 2. Application of equity method

- (1) The consolidated financial statements include 29 affiliates that are accounted for by the equity method, including PT. Rimba Partikel Indonesia and Bloomfield Homes, L.P. Beginning the consolidated fiscal year under review, Phu Hung Thai Development Joint Stock Company, Justin Timberbrook, LLC and DRSFA, LLC, in which a stake was newly acquired, are included as equity-method affiliates.
- (2) For equity-method affiliates that have a fiscal year end that differs from the Company's fiscal year end, financial statements for these different fiscal years are used.

#### 3. Accounting periods of consolidated subsidiaries

The settlement date for 73 overseas consolidated subsidiaries is December 31, so when preparing the consolidated financial statements for the consolidated fiscal year under review, the financial statements as of December 31, 2016 were used. Additionally, the settlement date for two consolidated subsidiaries is March 20, so the financial statements as of March 20, 2017 have been used for them. Finally, the settlement date for one overseas consolidated subsidiary and 27 domestic consolidated subsidiaries is March 31, and the financial statements as of March 31, 2017 have been used for them.

#### 4. Significant Accounting Policies

##### (1) Valuation standards and methods for important assets

###### a. Securities

Held-to-maturity securities

Amortized cost method (Straight-line method)

Other securities:

Securities with a market value

Value method based on the market price on the settlement date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)

Securities with no market value

Cost method based on the moving-average method

###### b. Derivatives

Market value method

###### c. Inventories

Finished goods, logs and lumber, work in process, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction contracts, developed land and housing for sale, and real estate for sale in process are stated at cost, determined by the specific cost method. Net book value of inventories as shown in the consolidated balance sheet is written down when profitability declines.

##### (2) Method of depreciating significant assets

###### a. Property, plant and equipment (excluding lease assets)

For the Company and domestic consolidated subsidiaries, the fixed-percentage method is used primarily. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998 and for accessory equipment and structures acquired on or after April 1, 2016. For overseas consolidated subsidiaries, the straight-line method is used primarily.

###### b. Intangible assets (excluding lease assets)

The straight-line method is used. The straight-line method is used for the amortization of software used internally based on the estimated internal use period (5 years).

###### c. Leased assets

Finance leases that do not transfer ownership of the leased assets are depreciated down to a residual value of zero over their useful lives using the straight-line method.

##### (3) Standards for significant allowances

###### a. Allowance for doubtful accounts

In order to prepare for expected losses from bad debts, estimated unrecoverable amounts are recorded for general claims based on historical bad-debt ratios, and for specific claims including doubtful accounts, based on individual recoverability.

###### b. Provision for bonuses

Estimated bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to employees.

c. Provision for directors' bonuses

Bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to directors.

d. Provision for warranties for completed construction

A warranty reserve is recorded to prepare for repair costs that may be required for completed construction. The reserve is based on historical costs and future estimates.

e. Provision for directors' retirement benefits

To prepare for the payment of directors' retirement benefits, accrued retirement benefits to directors of certain subsidiaries are recorded based on the amount required at year end in accordance with established internal regulations.

(4) Accounting process method of retirement benefits

a. Service period attribution method for projected retirement benefits

The method of attributing projected retirement benefits to the period up to fiscal year ended March 2016 when calculating retirement benefit obligations is as per the benefit formula standard.

b. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(5) Completed contracts and cost of completed contracts

At the end of the fiscal year that ended in March 2016, construction revenue is recognized by the percentage-of-completion method if the outcome of a construction contract could be estimated reliably (percentage of completion is estimated as a percentage of the estimated total cost, based on the cost incurred). The completed contract method is used for other short-term construction contracts.

(6) Main hedge accounting methods

a. Hedge accounting method

Deferred hedge accounting is adopted.

Appropriation accounting of foreign currency transactions is applied to foreign exchange hedging transactions. Special accounting treatment is used for interest rate swaps when they satisfy the requirements for special treatment.

b. Hedging policy

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

c. Scope of hedging

Certain foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged in accordance with policies laid out in the management regulations.

d. Method of evaluation for hedge effectiveness

The Company believes foreign exchange forward contracts and foreign currency swaps to be highly effective hedging instruments. Therefore, an evaluation of their effectiveness is omitted. An evaluation of the effectiveness of the special accounting treatment used for interest rate swaps is omitted.

(7) Amortization method and period of goodwill

Goodwill is amortized by the straight-line method over a period of up to 20 years. However, if its materiality is low, the goodwill is amortized in the year in which it is recognized.

(8) Other important items for compiling consolidated financial statements

Consumption tax

National and regional consumption taxes are accounted for using the net-of-tax method.

**Change in Accounting Policy**

(Application of Practical Solution for Changes in Depreciation Method Associated with Fiscal 2016 Tax Reform)

In conjunction with the revision to the Corporation Tax Act, the “Practical Solution for Changes in Depreciation Method Associated with Fiscal 2016 Tax Reform” (ASBJ PITF No. 32, June 17, 2016) has been applied as of the current fiscal year. The depreciation method associated with accessory equipment and structures acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method.

The impact on profit and loss due to the change above are minor.

**Change in Reporting Method**

(Consolidated Balance Sheets)

Because “Mature Timber” that were reported in “Other” under “Property, plant and equipment” in the previous consolidated fiscal year have increased their importance, in amount the Company has decided to report this item separately beginning from the consolidated fiscal year under review.

In the previous consolidated fiscal year, “Mature timber” amounted to 10,099 million yen.

**Notes to the consolidated balance sheet**

(Million yen)

|  |         |
|--|---------|
| 1. Pledged assets and secured liabilities                    |         |
| (1) Pledged assets   |         |
| Cash and time deposits                                       | 2,353   |
| Notes and accounts receivable-trade                          | 2,252   |
| Cost on uncompleted construction contracts                   | 192     |
| Developed land and housing for sale                          | 23,065  |
| Real estate for sale in process                              | 45,195  |
| Accounts receivable-other                                    | 259     |
| Buildings and structures                                     | 4,056   |
| Machinery, equipment and vehicles                            | 860     |
| Land   | 3,927   |
| Construction in progress                                     | 860     |
| Investment securities  | 14,430  |
| Other  | 2,637   |
| Total  | 100,085 |
| (2) Secured liabilities                                      |         |
| Short-term loans payable                                     | 2,417   |
| Long-term loans payable                                      | 34,906  |
| Other  | 228     |
| Total  | 37,551  |
| 2. Accumulated depreciation of property, plant and equipment | 90,300  |
| 3. Guaranteed Liabilities etc.                               |         |
| Guarantee on loans, etc. from financial institutions         |         |
| Purchasers with housing loans applied                        | 33,820  |
| Kawasaki Biomass Electric Power Co., Ltd.                    | 656     |
| MOS Lumber Products Co., Ltd.                                | 16      |
| Total  | 34,493  |

**Notes to the consolidated statements of changes in net assets**

|  |             |
|--|-------------|
| 1. The number of issued shares as of the end date of the consolidated fiscal year  |             |
| Ordinary shares  | 177,410,239 |
| 2. The number of treasury stock as of the end date of the consolidated fiscal year |             |
| Ordinary shares  | 281,970     |

3. Items related to dividend

(1) Dividend payment

| Resolution  | Type of shares  | Total amount of dividend ( Million yen ) | Dividend per share (Yen) | Base date          | Effective date   |
|---|-----------------|--|--------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders on June 24, 2016 | Ordinary shares | 2,126                                    | 12.00                    | March 31, 2016     | June 27, 2016    |
| Board of Directors' Meeting on November 7, 2016           | Ordinary shares | 2,657                                    | 15.00                    | September 30, 2016 | December 2, 2016 |

- (2) Dividends for which the base dates belongs to the consolidated fiscal year and for which the effective date comes after the end of the consolidated fiscal year  
The following matters are due to be resolved at the Meeting.

| Resolution  | Type of shares  | Total amount of dividend (Million yen) | Source of dividend | Dividend per share (Yen) | Base date      | Effective date |
|---|-----------------|--|--------------------|--------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders on June 23, 2017 | Ordinary shares | 3,543                                  | Retained earnings  | 20.00                    | March 31, 2017 | June 26, 2017  |

4. Type and number of shares subject to subscription rights to shares as of the last day of the consolidated fiscal year under review (excluding those for which the execution period has not yet come)  
Ordinary shares                      2,000

### **Notes on financial instruments**

#### 1. Matters relating to the state of financial instruments

The Company and its consolidated subsidiaries (“Group”) invest temporary surplus funds in highly safe and secure financial instruments, and use bank loans and bond issue as the primary means of raising capital.

The Group is working to reduce customers’ credit risks relating to operating receivables, notes and accounts receivable-trade and accounts receivable-other, in accordance with its credit control regulations. In addition, securities are negotiable certificates of deposit subject to settlement in the short term. Investment securities are primarily held-to-maturity bonds and securities related to our business, and the Group periodically confirms the market value and financial conditions and other aspects of the issuing entities (corporate customers). The Group also consistently reviews the ownership of financial instruments excluding bonds held to maturity, in consideration of its relationships with corporate customers. Almost all operating debts such as notes and accounts payable-trade and accounts payable for construction contracts, are payable within one year. The Group uses loans payable and bonds issued primarily to finance its operations and capital investment. The Group takes steps to stabilize its interest cost by interest rate swaps against the risk of interest rate fluctuations for the part of its long-term loans payable.

With respect to derivatives, the Group seeks to use them within a certain limit based on past records relating to ordinary business transactions in foreign currency, etc. The Group will not engage in speculative transactions.

#### 2. Matters relating to the market value of financial instruments

The amounts stated in consolidated balance sheets, market value and their differences as of March 31, 2017 are shown in the table below. For your information, items of account which are of less importance in the consolidated balance sheet are omitted from this table. Also, items of account for which an accurate grasp of market value is recognized to be extremely difficult are not stated in this table. (refer to the (note 2))

(Million yen)

|   | Amount stated in consolidated balance sheets*1 | Market value*1 | Difference |
|---|--|----------------|------------|
| (1) Cash and time deposits                      | 111,506  | 111,506        | —          |
| (2) Notes and accounts receivable-trade         | 119,274  | 119,274        | —          |
| (3) Securities and investment securities        |  |                |            |
| a. Bonds held to maturity                       | 1,765  | 1,838          | 74         |
| b. Other securities                             | 71,711   | 71,711         | —          |
| (4) Accounts receivable-other                   | 45,902   | 45,902         | —          |
| Total assets                                    | 350,157  | 350,231        | 74         |
| (5) Notes and accounts payable-trade            | (111,281)                                      | (111,281)      | —          |
| (6) Accounts payable for construction contracts | (71,211)                                       | (71,211)       | —          |
| (7) Long-term loans payable *2                  | (88,694)                                       | (88,135)       | 558        |
| Total liabilities                               | (271,185)                                      | (270,627)      | 558        |
| (8) Derivatives transactions*3                  |  |                |            |
| a. Hedge accounting not applied                 | 127  | 127            | —          |
| b. Hedge accounting applied                     | (116)  | (116)          | —          |
| Total derivatives                               | 11   | 11             | —          |

\*1 Amounts stated under liabilities are shown in brackets.

\*2 Amount of Long-term loan payable includes Long-term loan payable due within 1 year.

\*3 Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative figure, the amount is shown in brackets.

(Note 1) Methods for calculating the market value of financial instruments and matters relating to securities and derivatives trading

(1) Cash and time deposits, (2) Notes and accounts receivable-trade and (4) Accounts receivable-other

Book value is stated for these items. Book value is almost the same as market value because short-term settlement creates the market value.

(3) Securities and investment securities

The market value stated for shares is the exchange quote value. The market value stated for bonds is the exchange quote value or the value indicated by financial institutions.

In addition, for negotiable deposit certificates, the book value is almost the same as the market value because short-term settlement creates the market value.

(5) Notes and accounts payable-trade and (6) Accounts payable for construction contracts

Book value is stated for these items. Book value is almost the same as market value because short-term settlement creates the market value.

(7) Long-term loans payable

Book value is stated for long-term loans payable with a variable interest rate, because their market value and book value are assumed to be close. The reasons for this assumption are that the loans reflect market interest rates in the short term and the credit condition of the Company did not significantly change after the loan offer. The present value is calculated for long-term loans payable with a fixed interest rate. The present value is calculated by similar debt from the aggregate amount of principal and interest for long-term loans payable classified according to fixed terms. (\*)

(\*)For long-term loans payable subject to special accounting for interest rate swaps, the aggregate amount of principal and interest based on the interest rate swap is used.

(8) Derivatives transactions

The market value is the future quotation value or the value indicated by financial institutions. The market value of derivatives, to which special accounting for interest rate swaps is applied, is stated as part of the market value of long-term loans payable, because these derivatives are operated collectively with the hedged long-term loans payable.

(Note 2) Unlisted shares (stated as 4,932 million yen in the consolidated balance sheets), and shares and bonds of subsidiaries and affiliates (stated as 19,898 million yen in the consolidated balance sheets) are not included in the amount of “(3) Securities and investment securities, b. Other securities,” because they have no market value, and it is considered to be very difficult to calculate their prevailing prices.

**Notes on leasehold properties and other types of real estate**

1. Matters relating to the state of leasehold properties and other types of real estate

The Company and some of its consolidated subsidiaries own rental houses, etc. in metropolitan Tokyo and other areas.

2. Matters relating to the market value of leasehold properties and other types of real estate

(Million yen)

| Amount stated in the consolidated balance sheets | Market value |
|--|--------------|
| 11,816   | 11,715       |

(Note 1) The amount above stated in the consolidated balance sheet is calculated by deducting the accumulated depreciation and accumulated impairment loss from the acquisition cost.

(Note 2) The amounts based on real estate appraisal by independent real estate appraisers and the amounts based on indices assumed to reflect market value appropriately are adopted as the market value of major properties and the market value of other properties at the end of the reporting fiscal year, respectively.

**Notes to per-share information**

(Yen)

|                      |          |
|----------------------|----------|
| Net assets per share | 1,552.04 |
| Net income per share | 194.95   |

**Notes to matters relating to important subsequent events**

Acquisition of additional stake in Bloomfield Homes, L. P. and one other company

We acquired additional stake in Bloomfield Homes, L. P. and one other company through our US subsidiary Sumitomo Forestry America, Inc. and made them subsidiaries.

1. Overview of merger

(1) Name of acquired company and description of business

Name of acquired company: Bloomfield Homes, L. P. and one other company

Description of business: Construction and sale of spec homes

(2) Main reason(s) for merger

Since acquiring stake in Bloomfield Homes, L. P. and one other company in June 2013, we have steadily expanded the business while developing a strong partnership. We made them subsidiaries to deepen our involvement in the business and achieve long-term increases in earnings.

(3) Date of merger

May 2, 2017(US time)

(4) Legal form of merger

Cash-based stake acquisition

(5) Name of company after merger

No change in name

(6) Acquired voting rights

Percentage of voting rights held before business combination: 50%

Additional percentage of voting rights acquired on date of business combination: 15%

Percentage of voting rights held after acquisition: 65%

(7) Main grounds for decision

Our consolidated subsidiary Sumitomo Forestry America, Inc. acquired the stake with cash.

2. Breakdown of acquisition price and type of consideration for acquisition of additional stake

Acquisition price (approximate) 4,095 million yen

(Note) The amount above is approximate as of the time of acquisition and may differ from the actual amount depending on future price adjustments, etc.

3. Cost of acquisition of acquired companies and difference from total cost of acquisition broken down by transaction leading to acquisition

Not yet determined.

4. Amount of goodwill, reasons and method/period of amortization

Not yet determined.

**Other notes (additional information)**

(Finalization of provisional treatment of business combinations)

Provisional accounting treatment had been applied to the business combination with the DRB Group (DRB Enterprises, LLC and seven other companies) that was conducted on January 1, 2016 (US time) in the previous consolidated fiscal year, but it has been finalized in the consolidated fiscal year under review.

In conjunction with the finalization of this provisional accounting treatment, an important adjustment has been made to the initial allocation of the purchase price.

As a result, the provisionally calculated 4,593 million yen of goodwill decreased by 1,695 million yen to 2,898 million yen with the finalization of the accounting treatment, and it will be equally amortized over four years. The decrease in goodwill is due to a 2,062 million yen increase in other intangible assets, a 762 million yen increase in deferred tax assets and a 1,130 million yen increase in non-controlling interests.

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Beginning the consolidated fiscal year under review, the Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standard No. 26, March 28, 2016).

## NON-CONSOLIDATED FINANCIAL STATEMENTS

### NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2017

(Million yen)

|  | Shareholders' equity |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
|--|----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|-----------------------------|-----------------|-----------------------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus       |                       | Legal retained earnings | Retained earnings                |                             |                 |                                   | Treasury stock | Total shareholders' equity |
|  |                      | Legal capital surplus | Other capital surplus |                         | Other retained earnings          |                             |                 |                                   |                |                            |
|  |                      |                       |                       |                         | Reserve for special depreciation | Reserve for reduction entry | General reserve | Retained earnings brought forward |                |                            |
| Balance at the beginning of current period           | 27,672               | 26,613                | 259                   | 2,857                   | 120                              | 1,716                       | 115,487         | 12,358                            | (278)          | 186,804                    |
| Changes during the period                            |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Reversal of reserve for special depreciation         |                      |                       |                       |                         | (24)                             |                             |                 | 24                                |                | -                          |
| Reversal of reserve for reduction entry              |                      |                       |                       |                         |                                  | (0)                         |                 | 0                                 |                | -                          |
| Provision of general reserve                         |                      |                       |                       |                         |                                  |                             | 4,900           | (4,900)                           |                | -                          |
| Dividends from surplus                               |                      |                       |                       |                         |                                  |                             |                 | (4,782)                           |                | (4,782)                    |
| Net income   |                      |                       |                       |                         |                                  |                             |                 | 22,292                            |                | 22,292                     |
| Purchase of treasury stock                           |                      |                       |                       |                         |                                  |                             |                 |                                   | (2)            | (2)                        |
| Net changes in items other than shareholders' equity |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Total changes during the period                      | -                    | -                     | -                     | -                       | (24)                             | (0)                         | 4,900           | 12,633                            | (2)            | 17,507                     |
| Balance at the end of current period                 | 27,672               | 26,613                | 259                   | 2,857                   | 96                               | 1,715                       | 120,387         | 24,991                            | (280)          | 204,311                    |

|  | Valuation and translation adjustments                 |                                    | Subscription rights to shares | Total net assets |
|--|---|------------------------------------|-------------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges |                               |                  |
| Balance at the beginning of current period           | 16,169  | (56)                               | 36                            | 202,952          |
| Changes during the period                            |   |                                    |                               |                  |
| Reversal of reserve for special depreciation         |   |                                    |                               | -                |
| Reversal of reserve for reduction entry              |   |                                    |                               | -                |
| Provision of general reserve                         |   |                                    |                               | -                |
| Dividends from surplus                               |   |                                    |                               | (4,782)          |
| Net income   |   |                                    |                               | 22,292           |
| Purchase of treasury stock                           |   |                                    |                               | (2)              |
| Net changes in items other than shareholders' equity | 9,614   | (21)                               | 46                            | 9,639            |
| Total changes during the period                      | 9,614   | (21)                               | 46                            | 27,146           |
| Balance at the end of current period                 | 25,782  | (77)                               | 82                            | 230,098          |

## **NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**

### **Summary of significant accounting policies**

#### 1. Valuation standards and method for securities

- (1) Held-to-maturity securities  
Amortized cost method (Straight-line method)
- (2) Shares held in subsidiaries and affiliates  
Cost method based on the moving-average method.
- (3) Other securities:  
Securities with a market value  
Value method based on the market price on the closing date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)  
  
Securities with no market value  
Cost method based on the moving-average method

#### 2. Valuation standards and method for inventories

Purchased products are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction contracts, developed land and housing for sale, and real estate for sale in process are stated at cost, determined by the specific cost method. Net book value of inventories as shown in the non-consolidated balance sheet is written down when profitability declines.

#### 3. Method of depreciation of noncurrent assets

- (1) Property, plant and equipment (excluding lease assets)  
The declining-balance method of depreciation is used. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998 and for accessory equipment and structures acquired on or after April 1, 2016. For overseas consolidated subsidiaries, the straight-line method is used primarily.
- (2) Intangible assets (excluding lease assets)  
The straight-line method is used. The straight-line method is used for the amortization of software used internally based on the estimated internal use period (5 years).
- (3) Leased assets  
Finance leases that do not transfer ownership of the leased assets are depreciated down to a residual value of zero over their useful lives using the straight-line method.

#### 4. Standards for allowance

- (1) Allowance for doubtful accounts  
In order to prepare for expected losses from bad debts, estimated unrecoverable amounts are recorded for general claims based on historical bad-debt ratios, and for specific claims including doubtful accounts, based on individual recoverability.
- (2) Provision for employees' bonuses  
Estimated bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to employees.

(3) Provision for directors' bonuses

Bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to directors of the Company.

(4) Provision for warranties for completed construction

A warranty reserve is recorded to prepare for repair costs that may be required for completed construction. The reserve is based on historical costs and future estimates.

(5) Provision for retirement benefits

A provision for retirement benefits is provided for the necessary amounts based on the estimates of retirement benefit obligations and pension assets at the end of the reporting fiscal year. Should the total estimated figure for pension assets at the end of the reporting fiscal year exceed the total estimated figure for retirement benefit obligations, the surplus is recognized as prepaid pension cost.

a. Service period attribution method for projected retirement benefits

The method of attributing projected retirement benefits to the period up to fiscal year ended March 2016 when calculating retirement benefit obligations is as per the benefit formula standard.

b. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are typically accounted for collectively in the fiscal year in which they occur.

(6) Provision for losses on business of subsidiaries and affiliates

A provision for losses on business of subsidiaries and affiliates is provided to prepare for possible losses by taking into consideration the financial position of the company.

5. Completed contracts and cost of completed contracts

At the end of the fiscal year that ended in March 2016, construction revenue is recognized by the percentage-of-completion method if the outcome of a construction contract could be estimated reliably (percentage of completion is estimated as a percentage of the estimated total cost, based on the cost incurred). The completed contract method is used for other short-term construction contracts.

6. Hedge accounting methods

(1) Hedge accounting method

Deferred hedge accounting is adopted.

Appropriation accounting of foreign currency transactions is applied to foreign exchange hedging transactions. Special accounting treatment is applied to interest rate swaps when they satisfy the requirements for such.

(2) Hedging policy

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

(3) Scope of hedging

Certain foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged in accordance with policies laid out in the management regulations.

(4) Method of evaluation for hedge effectiveness

The Company believes foreign exchange forward contracts and foreign currency swaps to be highly effective hedging instruments. Therefore, an evaluation of their effectiveness is omitted. An evaluation of the effectiveness of the special accounting treatment used for interest rate swaps is omitted.

7. Other important items for compiling non-consolidated financial statements

Consumption tax

National and regional consumption taxes are accounted for using the net-of-tax method.

**Change in Accounting Policy**

(Application of Practical Solution for Changes in Depreciation Method Associated with Fiscal 2016 Tax Reform)

In conjunction with the revision to the Corporation Tax Act, the “Practical Solution for Changes in Depreciation Method Associated with Fiscal 2016 Tax Reform” (ASBJ PITF No. 32, June 17, 2016) has been applied as of the current fiscal year. The depreciation method associated with accessory equipment and structures acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method.

The impact on profit and loss due to the change above are minor.

**Notes to the non-consolidated balance sheet**

(Million yen)

1. Pledged assets

(1) Pledged assets

|   |        |
|---|--------|
| Investment securities                                       | 14,422 |
| Stocks of subsidiaries and affiliates                       | 6      |
| Long-term loans receivable from subsidiaries and affiliates | 122    |
| Other   | 359    |
| Total   | 14,909 |

(2) Liabilities for pledge

|   |     |
|---|-----|
| Long-term loans payable due within 1 year | 28  |
| Long-term loans payable                   | 283 |
| Total                                     | 311 |

2. Accumulated depreciation on property, plant and equipment 23,576

3. Accumulated advanced depreciation on property, plant and equipment 881

4. Guaranteed liabilities

(1) Guarantee on loans, etc. of subsidiaries and affiliates from financial institutions

|  |        |
|--|--------|
| Sumitomo Forestry America, Inc.            | 10,014 |
| Vina Eco Board Co., Ltd.                   | 4,986  |
| Sumitomo Forestry Australia Pty Ltd.       | 4,970  |
| Sumirin Hong Kong Limited                  | 2,715  |
| Sumitomo Forestry (Singapore) Ltd.         | 2,304  |
| PT. Kutai Timber Indonesia                 | 1,677  |
| Kawasaki Biomass Electric Power Co., Ltd.  | 656    |
| Hachinohe Biomass Electric Power Co., Ltd. | 618    |
| PT. AST Indonesia                          | 140    |
| Sumikyo Co., Ltd.                          | 104    |
| Sumitomo Forestry (Dalian) Ltd.            | 31     |
| PT. Sumitomo Forestry Indonesia            | 27     |
| Fill Care Co., Ltd.                        | 20     |
| MOS Lumber Products Co., Ltd.              | 16     |
| Sumikyo Wintec Co., Ltd.                   | 1      |
| Total                                      | 28,281 |

|   |        |
|---|--------|
| (2) Guarantee on other loans from financial institutions  |        |
| Purchasers with housing loans applied   | 33,538 |
| 5. Monetary receivables from and payables to subsidiaries and affiliates (excluding amounts disclosed under separate classifications) |        |
| Short-term monetary receivable  | 35,746 |
| Short-term monetary payable   | 66,948 |
| Long-term monetary payable  | 1,863  |

**Notes to non-consolidated statements of income** (Million yen)

|   |         |
|---|---------|
| Transactions with subsidiaries and affiliates |         |
| Net sales                                     | 29,100  |
| Purchase of goods                             | 134,084 |
| Non-operating income                          |         |
| Interest income                               | 543     |
| Dividends income                              | 4,910   |
| Other   | 176     |
| Non-operating expenses                        | 52      |

**Notes to non-consolidated statements of changes in net assets**

|   |         |
|---|---------|
| The number of treasury stock as of the end of the reporting fiscal year |         |
| Ordinary shares   | 281,970 |

**Notes to tax effect accounting**

1. Details of the main reason for occurrence of deferred tax assets and liabilities

|   |        |
|---|--------|
| Deferred tax assets   |        |
| Allowance for doubtful accounts                                       | 1,688  |
| Provision for bonuses   | 1,938  |
| Loss on devaluation of developed land and housing for sale etc.       | 488    |
| Provision for retirement benefit                                      | 3,213  |
| Provision for loss on business of subsidiaries and affiliates         | 700    |
| Loss on devaluation of securities of subsidiaries and affiliates      | 5,795  |
| Loss on devaluation of investment securities and golf club membership | 1,655  |
| Provision for warranties for completed construction                   | 728    |
| Other   | 3,664  |
| Subtotal deferred tax assets  | 19,869 |
| Valuation reserve   | △9,954 |
| Total deferred tax assets   | 9,914  |
| Deferred tax liabilities  |        |
| Reserve for advanced depreciation on noncurrent assets                | 757    |
| Gain on contribution of securities to retirement benefit trust        | 1,217  |
| Valuation difference on available-for-sale securities                 | 10,773 |
| Other   | 1,361  |
| Total deferred tax liabilities  | 14,108 |
| Deferred tax liabilities in net                                       | △4,194 |

2. Breakdown of major items giving rise to material differences between the statutory effective tax rate and the effective rate of corporate and other income taxes after application of tax effect accounting

|   |       |
|---|-------|
| Statutory effective tax rate  | 30.9% |
| (Adjustment)  |       |
| Non-deductible expenses such as entertainment expense   | 0.8%  |
| Non-taxable income such as dividends received   | △5.3% |
| Inhabitants' tax-per capita levy  | 0.6%  |
| Valuation allowance   | 1.4%  |
| Other   | △2.2% |
| Effective rate of corporate and other income taxes after application of tax effect accounting | 26.1% |

**Notes to related party transactions**

Subsidiaries and affiliates, etc.

(Million yen)

| Type       | Name of company                              | Share of voting rights owned by the Company | Relationship  | Transaction description                              | Transaction amount (* 5) | Accounting item                             | Year-End balance (* 5) |
|------------|--|---|---|--|--------------------------|---|------------------------|
| Subsidiary | Sumitomo Forestry Home Engineering Co., Ltd. | Direct 100.0%                               | Supply of paid materials<br>Construction of ordered housing<br>Interlock of directors | Construction of housing ordered by the Company (* 1) | 78,101                   | Accounts receivable-other                   | 23,360                 |
|            |  |   |   |  |                          | Accounts payable for construction contracts | 23,045                 |
| Subsidiary | Sumitomo Forestry Home Tech Co., Ltd.        | Direct 100.0%                               | After maintenance of housing<br>Interlock of directors                                | Deposit of surplus fund to the Company (* 2)         | -                        | Deposits received                           | 16,523                 |
| Subsidiary | Sumitomo Forestry America, Inc.              | Direct 100.0%                               | Interlock of directors  | Loan (* 3)   | 14,178                   | Short-term loans receivable                 | 5,337                  |
|            |  |   |   | Underwriting of capital increase                     | 27,911                   | Long-term loans receivable                  | 8,353                  |
|            |  |   |   | Debt guarantee (* 4)                                 | 10,014                   | -   | -                      |
| Subsidiary | Sumitomo Forestry NZ Ltd.                    | Direct 100.0%                               | Interlock of directors  | Underwriting of capital increase                     | 26,871                   | -   | -                      |
| Subsidiary | Sumitomo Forestry Australia Ltd.             | Direct 100.0%                               | Interlock of directors  | Underwriting of capital increase                     | 6,405                    | -   | -                      |

- (\*1) Transaction terms and policy for determining transaction terms are determined in the same way as for general transaction conditions.  
 (\*2) Transaction amounts are not shown, because the transactions are conducted repeatedly, and the purpose for this is to centralize fund management within the Group.  
 (\*3) Loan to related parties is determined based on market interest rates.  
 (\*4) The Company guarantees debt for loans borrowed from financial institutions.  
 (\*5) Transaction amounts do not include consumption tax, etc., while year-end balances do.

**Notes to per-share information**

(Yen)

|                      |          |
|----------------------|----------|
| Net assets per share | 1,298.59 |
| Net income per share | 125.85   |

**Notes to matters relating to important subsequent events**

There are no relevant items.

**Other notes (additional information)**

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Beginning the consolidated fiscal year under review, the Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standard No. 26, March 28, 2016).