Financial Section

Contents

Eleven-Year Consolidated Financial Summary

(Years ended March 31)	2016	2015	2014	2013
	Millions of yen			
Operating Results:				
Net sales	¥1,040,524	¥997,256	¥972,968	¥845,184
Gross profit	183,134	169,492	160,162	141,436
Selling, general and administrative expenses	153,041	135,498	126,747	116,105
Operating income	30,093	33,994	33,415	25,330
Recurring income	30,507	36,424	33,567	26,981
Profit attributable to owners of parent / Net income	9,727	18,572	22,531	15,923
Financial Position:				
Total assets	¥709,188	¥665,538	¥645,197	¥547,973
Working capital*1	178,215	158,110	120,725	91,335
Interest-bearing debt	119,069	103,369	92,975	69,229
Total net assets	264,127	260,782	226,078	193,250
Cash Flows:				
Cash flows from operating activities	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910
Cash flows from investment activities	(9,972)	(23,575)	(10,476)	(28,662)
Cash flows from financing activities	1,813	(17,286)	8,511	(5,305)
Cash and cash equivalents at the end of the year	141,265	103,296	128,343	75,658
Capital Investment:				
Tangible fixed assets*2	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058
Intangible fixed assets	2,006	2,488	2,417	2,890
Others	400	282	252	343
Total	20,448	15,388	17,404	10,291
Depreciation and amortization	11,753	11,453	9,810	8,978
	Yen			
Per Share Data:				
Profit attributable to owners of parent / Net income	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89
Net assets	1,374.47	1,387.39	1,234.53	1,086.68
Cash dividends	24.0	21.5	19.0	17.0
	%			
Financial Ratios:				
Gross profit margin	17.6	17.0	16.5	16.7
Operating income margin	2.9	3.4	3.4	3.0
Recurring income margin	2.9	3.7	3.4	3.2
Return on assets (ROA)*3	4.4	5.6	5.6	5.1
Return on equity (ROE)*3	4.0	8.0	11.0	8.8
Equity ratio	34.3	36.9	33.9	35.1
Interest-bearing debt ratio*4	32.8	29.6	29.8	26.5
Current ratio	156.9	154.1	137.0	133.1
Interest coverage ratio (times)*5	43.1	12.6	44.2	34.9

*1. Working capital = Current assets – Current liabilities
*2. From the fiscal year ended March 31, 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.
*3. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
*4. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)
*5. Interest coverage ratio (times) = cash flow from operating activities / interest payments

Millions of yen						
2012	2011	2010	2009	2008	2007	2006
¥831,870	¥797,493	¥723,923	¥823,810	¥861,357	¥911,674	¥791,128
136,873	132,568	124,269	133,493	135,277	141,117	127,853
117,682	118,330	114,522	126,656	128,041	120,711	112,407
19,191	14,238	9,747	6,837	7,235	20,405	15,446
20,714	14,206	9,465	6,160	7,659	21,259	16,800
9,271	5,175	2,377	1,028	1,115	11,954	10,842
¥503,496	¥489,417	¥469,738	¥427,738	¥450,730	¥500,136	¥464,193
94,509	89,665	88,338	81,700	64,156	76,453	68,037
67,923	69,229	66,786	49,127	25,816	25,739	22,067
169,335	163,110	162,930	156,192	173,089	188,855	175,206
¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626
(32,903)	(13,247)	(19,117)	(29,062)	(17,587)	(7,102)	(8,998)
(5,622)	372	11,546	24,196	(4,262)	665	(14,039)
63,839	75,582	71,662	40,730	54,475	50,311	49,628
¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132
2,786	2,434	1,561	2,013	1,694	1,586	1,857
194	215	395	150	222	420	454
13,950	14,572	12,592	26,238	11,494	9,026	10,443
8,469	8,437	8,502	8,477	7,258	6,476	6,403
Yen						
¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29	¥ 67.43	¥ 61.28
954.81	919.54	917.82	880.94	975.99	1,059.20	996.03
15.0	15.0	15.0	15.0	15.0	15.0	13.0
%						
16.5	16.6	17.2	16.2	15.7	15.5	16.2
2.3	1.8	1.3	0.8	0.8	2.2	2.0
2.5	1.8	1.3	0.7	0.9	2.3	2.1
4.2	3.0	2.1	1.4	1.6	4.4	4.0
5.6	3.2	1.5	0.6	0.6	6.6	6.6
33.6	33.3	34.6	36.5	38.4	37.5	37.7
28.7	29.8	29.1	23.9	13.0	12.1	11.2
137.1	136.8	140.3	141.6	127.6	129.3	129.3
20.0	13.7	31.8	-	17.9	5.6	16.5

Market Overview

In fiscal 2015, ended March 31, 2016, the global economy exhibited a mild recovery overall thanks to continued recovery of the U.S. economy despite an economic slowdown in China and other emerging countries. The Japanese economy continued its own gentle recovery as the employment situation improved and capital investments recovered, despite a lack of vigor in exports.

The domestic housing market exhibited a recovery owing to housing loan interest rates hovering at low levels and the enactment of housing acquisition promotion policies by the government, such as broader tax exemptions for the gift tax. As a result, the number of new housing starts in the fiscal year ended March 31, 2016 rose to 921,000, an increase of 4.6% year on year. Of these, owner-occupied housing starts came to 284,000, an increase of 2.2% year on year.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales increased 4.3% year on year to ¥1,040,524 million, surpassing the ¥1 trillion mark for the first time.

The Group worked to improve the profitability of the Timber and Building Materials and Custom-Built Detached Housing businesses, which are its main businesses, and also sought to build a balanced portfolio capable of adapting to changes in the market environment. Toward that end, we endeavored to expand our growth businesses through such efforts as aggressively investing management resources in not only the Apartment, Renovation and Overseas businesses but also the MOCCA (timber solution) Business, which promotes the adoption of timber construction in non-residential buildings and wood-based interior finishings, the biomass power generation business and management of private-pay elderly care facilities.

The amount of orders received for custom-built detached homes rose 2.5% to ¥297,490 million as an increase in prices absorbed a decline in the volume of orders.

2 Selling, General and Administrative Expenses

Selling, general and administrative expenses rose 12.9% year on year to ¥153,041 million.

Personnel expenses increased, owing to actuarial differences in accounting for retirement benefits of ¥11,531 million, which arose mainly because of a fall in long-term interest rates. Actuarial differences are accounted for collectively in the fiscal year in which they occur. Excluding this factor, selling, general and administrative expenses increased 4.6% year on year to ¥141,510 million.

The increase in selling, general and administrative expenses was due mainly to the full-year accounting of the selling, general and administrative expenses of the Gehan Homes Group, which became a consolidated subsidiary in May 2014. Another contributing factor was an increase in costs associated with expansion of the Renovation Business.

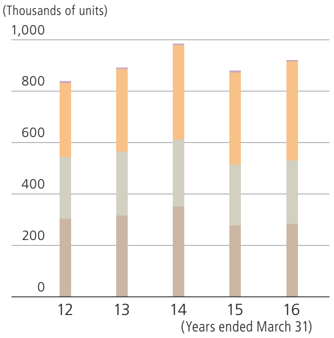
3 Operating Income, Recurring Income

Operating income declined to ¥30,093 million, down 11.5% from the previous fiscal year, while recurring income fell 16.2% year on year to ¥30,507 million, owing in part to recording ¥11,531 million in actuarial differences as a lump-sum personnel expense.

Despite a decline in the previous fiscal year, this marked the third consecutive period that we were able to secure recurring income of at least ¥30,000 million. Furthermore, excluding the impact of the aforementioned actuarial differences, operating income rose 21.5% to ¥41,624 million, and recurring income rose 14.6% to ¥42,038 million.

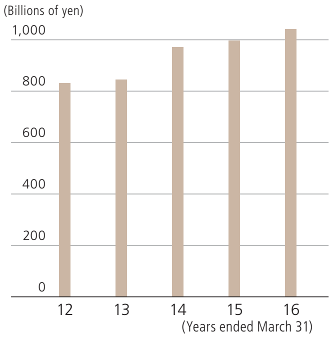
The main factors in this underlying increase were higher sales and profits associated with an increase in the average unit price for customer-built detached houses and expansion in the rental housing business. At the same time, net sales and gross profit also increased with the full-year contribution of Gehan Homes Group's operating results and a buoyant Overseas housing and real estate business, mainly in the U.S. and Australia.

Number of New Housing Starts in Japan

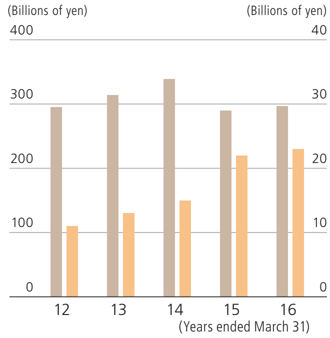


Owner-occupied housing
Built-for-sale housing
Rental housing
Corporate housing
Source: Ministry of Land, Infrastructure, Transport and Tourism

Net Sales



Amount of Orders Received



Custom-built detached housing (left)
Collective housing (wooden apartment)

4 Profit Attributable to Owners of Parent

Profit attributable to owners of parent declined 47.6% year on year to ¥9,727 million. The decline mainly reflects special factors such as actuarial differences and the recognition of approximately ¥3,500 million in impairment losses as a result of a revision of the plan for afforestation business assets in Papua New Guinea.

Profit attributable to owners of the parent per share fell ¥49.93 year on year to ¥54.92.

Segment Results

Note: Net sales for each segment include intersegment sales and transfers. Segment income represents figures for recurring income.

1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business rose 0.9% year on year to ¥426,965 million, while recurring income declined 17.0% to ¥3,352 million.

In the domestic timber and building materials business, we worked to maintain and advance our status as number one in terms of timber and building material trade volume based on our sales network and credit, which we have established over our many years in business. We also worked to expand our handling of fuel wood for biomass power generation, for which demand is expected to grow and to expand domestic timber exports to China and other Asian markets in order to grow our business regardless of the trend in the number of new housing starts. In the domestic building materials manufacturing business, we worked to improve profitability through such means as focusing on operational streamlining and sales expansion.

In the overseas distribution business, we transferred the oversight function to our Singaporean subsidiary with the aim of improving mobility and efficiency. We also worked to expand the business, especially around the Pacific Rim, including efforts to expand sales of timber and building material products to Southeast Asian countries. Moreover, we established a local subsidiary to build a sales system for timber and building materials in India, where housing demand is expected to grow.

2 Housing Business

Net sales in the Housing Business increased 0.1% year-on-year to ¥454,604 million, and recurring income rose 11.3% to ¥31,512 million. The increases in net sales and recurring income reflected efforts to provide high-added-value products and to reduce costs.

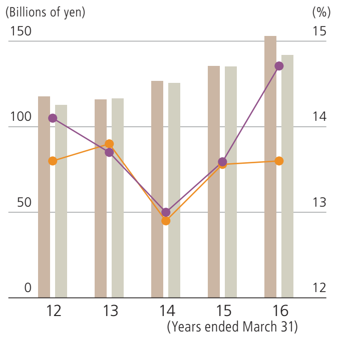
Custom-Built Detached Housing Business

In the Custom-Built Detached Housing Business, we enhanced the technical specifications of our original Big-Frame construction method, which has superior earthquake resistance and offers greater design flexibility that enables provision of dwellings with a sense of spaciousness, in order to make our products even more appealing. Additionally, in order to strengthen our Grand Estate Design Project undertaking, which offers sophisticated residences with excellent design sense, we established the Architectural Design Center to oversee difficult design operations and a new model home that gives shape to the Grand Estate Design Project. With these efforts, we have established an environment that allows us to demonstrate our proposal and response capabilities to our customers. At the same time, in order to expand our market share, we shifted our personnel to metropolitan areas with growing populations and aggressively invested management resources, including updating our model homes and establishing new "Machikado Ichiban" model homes in residential areas featuring houses that will later be sold. In other initiatives, we launched our "BF-Fireproof" strategic urban product, which combines earthquake and fire resistance technologies in four-story wooden homes to address the construction needs of narrow urban lots. Additionally, we launched our new "konoka" product, featuring the perspective and ideas of women, and opened a model home to show off the concept.

Apartment Business

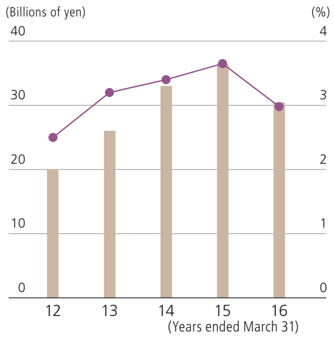
In the Apartment Business, we established an apartment sales system at all locations of the Custom-Built Detached Housing Business in order to respond to demand for asset utilization against I backdrop of revisions to the inheritance tax in January last year. We also launched our "ForestMaison" "BF-Fireproof" apartment/combined apartments and residential product, which satisfies the required fireproof standards of metropolitan areas.

SG&A Expenses and
SG&A Expenses Ratio



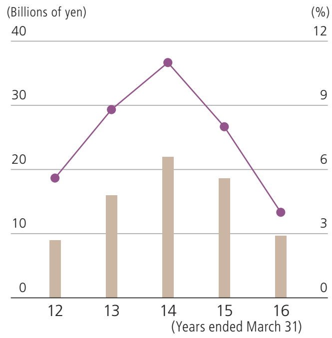
SG&A expenses
Excluding the effect of actuarial gains and losses) (Left)
SG&A expenses ratio*
Excluding the effect of actuarial gains and losses) (Right)
*SG&A expenses ratio = SG&A expenses / Net sales

Recurring Income and
Recurring Income Margin



Recurring income (Left)
Recurring income margin (Right)

Profit Attributable to
Owners of the Parent and ROE



Profit Attributable to Owners of the Parent (Left)
ROE (Right)

Renovation Business

In the Renovation Business, we increased sales representatives to target sales to owners of detached houses built by us and also worked aggressively on renovation of classic and traditional Japanese-style houses. Additionally, we developed new seismic reinforcement technology that enables us to increase earthquake resistance by working on the exterior walls without demolishing the interior of the building in order to reduce the burden on our customers when renovating.

Detached Spec Home / MOCCA (timber solutions) Business

In the Detached Spec Home Business, we focused efforts on bolstering sales capabilities to a wide range of homebuyers. In the MOCCA (timber solutions) business, we worked to expand non-residential timber constructed building and other projects where we can apply the technology and know-how cultivated in our Custom-Built Detached Housing Business and established a track record with elderly welfare facilities, childcare facilities, guide dog training facilities and marine product processing facilities during the period under review. Additionally, in the area affected by the Great East Japan Earthquake, we accepted an order to rebuild an elementary school that was being moved to higher ground.

3 Overseas Business

Net sales in the Overseas Business jumped 27.8% year on year to ¥187,926 million, and recurring income rose 113.7% to ¥13,091 million.

In the Overseas Manufacturing Business, profits were substantially higher than the previous year in New Zealand thanks to improved profitability resulting from the exchange rate in sales of medium density fiberboard (MDF) to Japan. In Indonesia, results were sluggish due to low unit selling prices of particle board in the country. In Vietnam we expanded production volume while promoting plant management considering particle board quality and the environment. Additionally, in order to establish a system for production and shipment of products to Japan, we obtained certification for displaying the JIS (Japanese Industrial Standards) mark for particle board in December 2015.

The Overseas Housing and Real Estate Business grew as a result of aggressive investments undertaken so far in the United States and Australia and an increase in the number of houses sold against the backdrop of a strong housing market. We also acquired new equity shares of a housing company that does business in the Eastern United States in January 2016 and made it a consolidated subsidiary in order to further expand our housing business in the United States. Additionally, we promoted our new housing and real estate business in Asia, including entering the condominium business in the Ho Chi Minh City, Vietnam market.

4 Other Businesses

In addition to these businesses, the Sumitomo Forestry Group engages in the biomass power generation business, an overseas forestation business, the management of private-pay elderly care facilities, the lease business, and the manufacture and sale of farming and gardening supplies. We also provide a wide range of service businesses for residential customers, including non-life insurance agency service, and develop IT systems for Group companies.

In our Indonesian forestation business, we reviewed our business plan and recorded an impairment loss for the fiscal year ended March 31, 2016.

Net sales in Other Businesses increased 1.9% year on year to ¥16,874 million, and recurring loss totaled ¥1,022 million, from a recurring income of ¥1,175 million in the previous year.

Housing Business

(Years ended March 31)		2013	2014	2015	**2016**
Orders					
Custom-Built Detached Housing	(¥ million)	¥314,240	¥339,909	¥290,203	**¥297,490**
	(Units)	9,105	9,364	7,804	**7,730**
Apartment	(¥ million)	¥ 13,043	¥ 15,502	¥ 21,790	**¥ 22,967**
	(Units)	1,138	1,140	1,486	**1,523**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 53,818	¥ 61,004	¥ 55,887	**¥ 63,604**
Sales					
Custom-Built Detached Housing	(¥ million)	¥300,936	¥320,260	¥313,396	**¥299,837**
	(Units)	8,999	9,243	8,743	**7,962**
Apartment	(¥ million)	¥ 9,371	¥ 13,130	¥ 13,569	**¥ 20,514**
	(Units)	858	1,124	1,014	**1,324**
Detached Spec Homes	(¥ million)	¥ 11,376	¥ 9,723	¥ 10,174	**¥ 11,606**
	(Units)	254	242	272	**303**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 50,312	¥ 59,336	¥ 56,656	**¥ 61,724**

Segment Performance Highlights

(Years ended March 31)	2015	2016	Change	Percent of change
	Millions of yen			
Net Sales	¥997,256	¥1,040,524	+ 43,268	+ 4.3%
Timber and Building Materials Business	423,020	426,965	+ 3,945	+ 0.9%
Housing Business	453,940	454,604	+ 663	+ 0.1%
Overseas Business	147,024	187,926	+ 40,901	+ 27.8%
Other Businesses	16,565	16,874	+ 310	+ 1.9%
Adjustments	(43,293)	(45,844)	– 2,551	—
Recurring Income	¥ 36,424	¥ 30,507	– 5,917	– 16.2%
Timber and Building Materials Business	4,039	3,352	– 686	– 17.0%
Housing Business	28,302	31,512	+ 3,209	+ 11.3%
Overseas Business	6,126	13,091	+ 6,965	+113.7%
Other Businesses	1,175	(1,022)	– 2,197	—
Adjustments	(3,219)	(16,427)	– 13,208	—

* Net sales include intersegment sales and transfers.
Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the Administrative Division that cannot be allocated to specific businesses.

Net Sales and Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Millions of yen)

(Years ended March 31)	Net Sales		Recurring Income	
	2015	2016	2015	2016
Sumitomo Forestry Crest Co., Ltd.	¥37,469	¥36,545	¥ 73	¥ (616)

Housing Business

(Years ended March 31)	Net Sales		Recurring Income	
	2015	2016	2015	2016
Sumitomo Forestry Residential Co., Ltd.	¥20,377	¥22,661	¥ 642	¥ 818
Sumitomo Forestry Home Engineering Co., Ltd.	82,861	77,454	800	739
Sumitomo Forestry Home Service Co., Ltd.	6,089	5,945	267	289
Sumitomo Forestry Landscaping Co., Ltd.	27,946	28,996	1,141	1,024
Sumitomo Forestry Home Tech Co., Ltd.	59,646	64,854	2,651	2,673

Overseas Business

(Years ended December 31)	Net Sales		Recurring Income	
	2014	2015	2014	2015
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)	¥13,122	¥13,583	¥ 782	¥ 838
Alpine MDF Industries Pty Ltd. (Australia)	4,544	5,202	(329)	144
Henley Properties Group (Australia, U.S.A.)*2	67,671	73,281	5,762	6,346
Nelson Pine Industries Ltd. (New Zealand)	15,637	17,281	468	1,018
Gehan Homes Group (U.S.A.)*3	29,241	59,061	3,141	6,952

*1 Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US$	AU$	NZ$
2014/12:	105.88	95.38	87.78
2015/12:	121.05	91.06	84.71

*2 Henley Properties Group consists of Henley Arch Unit Trust, and eight other companies.
*3 Gehan Homes Group consists of Gehan Homes, Ltd., and eight other companies. Its fiscal 2014 results are for the eight months from May 2014, the month in which it became a consolidated subsidiary.

Financial Position and Cash Flow

1 Financial Position

At the end of March 2016, total assets totaled ¥709,188 million, an increase of ¥43,650 million year on year. The increase was attributable mainly to an increase in cash on hand and an increase in real estate for sale associated with expansion of the Overseas Housing and Real Estate Business.

Liabilities increased ¥40,304 million compared to the end of the previous consolidated fiscal year to ¥445,061 million due to such factors as an increase in long-term debt and an increase in liability for retirement benefits arising from actuarial differences. Interest-bearing debt increased by ¥15,700 million year on year to ¥119,069 million due to an increase in long-term debt. The interest-bearing debt ratio increased from 29.6% at the end of the previous fiscal year to 32.8%.

Net assets totaled ¥264,127 million, and the equity ratio was 34.3%.

2 Cash Flow

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥45,705 million. In addition to income before income taxes of ¥26,243 million, an increase in notes and accounts payable, trade, and depreciation and amortization without cash outflow of ¥11,753 million, this increase also resulted from cash-increasing factors such as a net change in net defined benefit liability of ¥10,887 million, which together exceeded cash-decreasing factors such as an increase in inventories and payment of income taxes.

Cash flows from investment activities

Net cash used in investment activities amounted to ¥9,972 million. This mainly resulted from the use of cash to acquire stakes in American and Australian housing business companies and in capital investments in a domestic biomass power plant.

Cash flows from financing activities

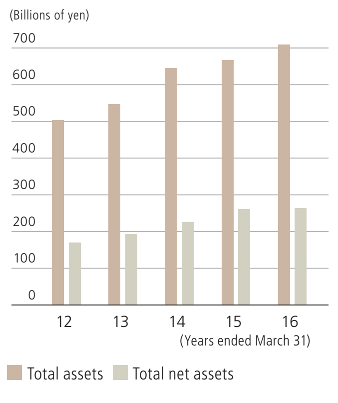
Net cash provided by financing activities amounted to ¥1,813 million. Cash-increasing factors such as an increase in interest-bearing debt exceeded cash-decreasing factors such as payment of dividends.

As a result of the above, cash and cash equivalents at March 31, 2016, stood at ¥141,265 million, an increase of ¥37,969 million from the end of the previous fiscal year.

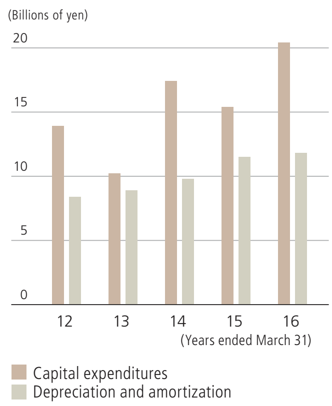
3 Capital Expenditures (Capital Investment)

Capital expenditures increased by 32.9% from ¥15,388 million in the previous fiscal year to ¥20,448 million in the fiscal year under review. Investment in tangible fixed assets increased 43.0% year on year to ¥18,042 million, while investment in intangible fixed assets decreased 19.4% year on year to ¥2,006 million. Major investments included ¥5,814 million for expenditures at biomass power plants, ¥4,643 million for model homes inside and outside Japan, and ¥2,152 million for IT investment.

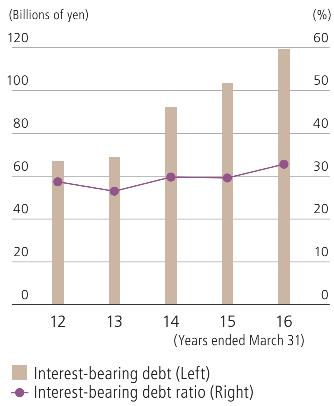
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

1 Housing Market Trends

The Sumitomo Forestry Group business results are heavily reliant on housing market trends. Changes in the following business conditions may cause a significant decline in housing orders, which could impact the Group's business results and financial position.

1. Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening demand for housing purchases.

2. Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build apartment buildings to use their land more effectively. However, the anticipation of interest rate rises can induce a temporary surge in home purchases, as consumers seek to avoid high loan costs.

3. Land Price Fluctuations

A sharp rise in land prices can negatively impact consumers' inclination to purchase land on which to build housing. Conversely, a steep drop in land prices is a form of asset deflation and can reduce demand for home reconstruction. Consequently, both substantial rises and falls in land prices may impact the Group's operating results and financial position.

4. Tax System and Housing-Related Policy Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce surge demand in housing purchases and thus temporarily increase housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housing-related policies such as tax breaks associated with housing loans and subsidy programs could affect the motivation for customers to buy housing, impacting the Group's operating results and financial position.

2 Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Registered Architect Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site cleanup). The Sumitomo Forestry Group diligently conforms to all laws and regulations while recognizing that the abolition, revision, or adoption of laws and regulations can substantially influence the Group's operating results and financial position.

3 Competition

The Sumitomo Forestry Group is engaged in various businesses, including timber and building materials and housing. In each of these businesses, we must compete with other companies. For that reason, failure to gain an advantage over our competitors in terms of the quality, price, sales, etc. of our products and services could negatively impact the Group's operating results and financial position.

4 Capitalization and Investment Strategy

We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the necessity of additional contribution of funds. Moreover, we may not be able to proceed with withdrawal from operations or restructuring according to our desired timing or methods due to factors such as the management policies of our partners or the low liquidity of the investment. In such cases there could be a negative impact on the Group's operating results and financial position.

5 Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the sales of the timber and building materials distribution business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. Fluctuations in the prices for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's operating results and financial position.

6 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange contracts and other means. However, greater than expected exchange rate fluctuations may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and construction materials overseas, impacting the Group's operating results and financial position.

7 Product Quality Assurance
The Group endeavors to ensure complete quality control with respect to its products, housing, and all aspects of its operations. However, serious quality issues arising from unforeseen circumstances may impact the Group's operating results and financial position.

8 Overseas Business Activities
The Group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the Group conducts business can influence the Group's operating results and financial position.

9 Retirement Benefit Obligations
A significant deterioration in the investment performance of the Group's pension assets or the necessity to revise assumptions for pension actuarial calculations could entail an increase in pension assets or increase the costs associated with pension accounts, potentially impacting the Group's operating results and financial position.

10 Stock Market
Volatile stock price fluctuations could cause the Group to book valuation losses on its securities holdings, thereby negatively impacting its operating results and financial position.

11 Natural Disasters
Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities, verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs by a natural disaster could influence the Group's operating results and financial position.

12 Information Security
The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an executive or an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

13 Environmental Risk
"Symbiosis with the Environment" is a top priority for the Group and is one of the four action guidelines of the Group's corporate philosophy. Changes to environmental regulations in Japan or overseas or major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems that could influence the Group's operating results and financial position.

14 Decline in the Value of Assets under Management
In the event that a marked deterioration in market conditions leads to a decline in the value of Group assets under management, such as real estate holdings and products, valuation losses could be incurred and assets could be written down due to impairment, which could influence the Group's operating results and financial position.

15 Provision of Credit to Business Partners
The Group extends credit to business partners in the form of trade receivables, etc., and meticulously manages the credit it extends, including by setting appropriate limits for credit losses to avoid credit risk exposure. Nevertheless, it is still possible the Group will be exposed to credit risk. The Group also sets reserves for credit losses based on rational estimates, but it is possible that the actual losses incurred will surpass the allocated reserves. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's operating results and financial position.

16 Litigation Risk
As the Group is engaged in a range of business activities in Japan and overseas, it is possible that said activities could be subject to litigation and/or a dispute. In the event that these activities become subject to litigation, the Group's operating results and financial position could be influenced.

17 Fundraising Risk
The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings. In this event, the Group's operating results and financial position could be impacted.

Note: Statements in this report with respect to matters in the future are forward-looking statements deemed logical by the Group as of the date of the production of this report.

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2016	2015	2016
Current assets:			
Cash and time deposits (Notes 8, 13, 17)	¥ 83,499	¥ 81,756	$ 738,927
Marketable securities (Notes 5, 13, 17)	34,000	26,000	300,885
Receivables—			
Notes and accounts, trade (Notes 8, 17, 18)	127,138	124,215	1,125,112
Loans and other (Notes 8, 17)	78,795	77,325	697,300
Inventories—			
Finished goods, logs and lumber	26,105	26,559	231,021
Construction projects in progress (Note 8)	23,906	22,863	211,556
Real estate for sale (Note 8)	43,239	39,232	382,650
Real estate for sale in process (Note 8)	56,371	37,063	498,857
Deferred tax assets (Note 10)	7,377	7,590	65,281
Other current assets	11,881	8,616	105,144
Allowance for doubtful accounts	(842)	(998)	(7,453)
Total current assets	491,469	450,220	4,349,280
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 8, 9)	26,817	27,007	237,321
Buildings and structures (Notes 8, 9)	62,685	62,856	554,736
Machinery, equipment and vehicles (Notes 8, 9)	81,197	88,588	718,555
Timberland (Notes 6, 9)	10,450	12,838	92,478
Construction in progress (Note 8)	13,572	8,628	120,105
Leased assets	9,632	10,299	85,240
	204,353	210,215	1,808,435
Less accumulated depreciation	(95,654)	(101,169)	(846,492)
Net property, plant and equipment	108,700	109,046	961,943
Intangible assets, net of amortization:			
Goodwill	8,258	5,981	73,077
Other intangible assets	9,820	10,306	86,904
Total intangible assets	18,078	16,286	159,981
Investments and other assets:			
Investment securities (Notes 5, 8, 17)	74,875	75,322	662,613
Long-term loans and receivables	5,595	5,491	49,516
Deferred tax assets (Notes 8, 10)	2,573	2,196	22,773
Asset for retirement benefits (Note 19)	74	303	655
Other assets	9,928	9,127	87,857
Allowance for doubtful accounts	(2,104)	(2,452)	(18,619)
Total investments and other assets	90,942	89,986	804,795
Total assets	¥709,188	¥ 665,538	$6,275,999

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 4) 2016
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 17, 18)	¥176,444	¥167,563	$1,561,451
Other	13,165	12,623	116,502
Short-term debt (Notes 7, 8)	21,592	22,990	191,076
Current portion of long-term debt (Notes 7, 8)	10,995	8,350	97,299
Current portion of lease obligation (Note 7)	1,691	2,146	14,969
Advances received from customers	51,922	49,644	459,491
Accrued income taxes	7,572	4,617	67,012
Accrued employees' bonuses	10,873	9,866	96,223
Accrued directors and corporate auditors' bonuses	130	135	1,150
Other current liabilities (Notes 3, 24)	18,869	14,176	166,984
Total current liabilities	313,254	292,110	2,772,157
Long-term liabilities:			
Bonds issued (Note 7)	—	5,000	—
Bonds with subscription rights to shares (Note 7)	20,000	20,000	176,991
Long-term debt (Notes 7, 8, 17, 18)	62,115	41,214	549,693
Long-term lease obligation (Note 7)	2,676	3,669	23,684
Deferred tax liabilities (Note 10)	5,022	12,244	44,445
Liability for retirement benefits (Note 19)	23,718	13,066	209,891
Other long-term liabilities (Notes 3, 24)	18,275	17,454	161,729
Total long-term liabilities	131,807	112,646	1,166,433
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2016 and 177,410,239 shares in 2015	27,672	27,672	244,885
Capital surplus	26,872	26,872	237,801
Retained earnings	166,762	161,286	1,475,772
Treasury stock: 280,362shares in 2016 and 278,529 shares in 2015	(278)	(275)	(2,456)
Total shareholders' equity	221,028	215,555	1,956,002
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	16,270	22,342	143,979
Deferred gain (loss) on hedges	(58)	(124)	(516)
Translation adjustments	6,497	8,101	57,495
Retirement benefits liability adjustments	(276)	(124)	(2,446)
Total accumulated other comprehensive income	22,432	30,195	198,512
Subscription rights to shares	36	0	318
Non-controlling interests	20,631	15,032	182,577
Total net assets	264,127	260,782	2,337,409
Total liabilities and net assets	¥709,188	¥665,538	$6,275,999

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥1,374.47	¥1,387.39	$12.16

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Net sales	¥1,040,524	¥997,256	$9,208,181
Cost of sales (Note 3):	857,390	827,764	7,587,526
Gross profit	183,134	169,492	1,620,655
Selling, general and administrative expenses (Note 12)	153,041	135,498	1,354,343
Operating income	30,093	33,994	266,312
Other income (expenses):			
Interest and dividends income	1,824	1,624	16,144
Interest expense	(1,236)	(1,136)	(10,942)
Equity in earnings (losses) of affiliates	761	1,021	6,734
Gain on sales of investment securities	33	128	288
Subsidy income	705	—	6,236
Gain on abolishment of retirement benefit plan	144	—	1,275
Impairment loss (Note 9)	(4,692)	(1,112)	(41,521)
Loss on devaluation of investment securities	—	(0)	—
Loss of reduction of non-current assets	(705)	—	(6,236)
Special retirement payment	(71)	(536)	(625)
Gain (Loss) on step acquisitions	—	(338)	—
Other gains (losses), net (Note 11)	(613)	1,094	(5,424)
Total	(3,850)	744	(34,071)
Income before income taxes	26,243	34,738	232,241
Income taxes (Note 10):			
Current	15,808	11,914	139,893
Deferred	(4,919)	841	(43,529)
Total	10,889	12,756	96,364
Profit	15,354	21,982	135,877
Profit attributable to non-controlling interests	5,627	3,410	49,795
Profit attributable to owners of parent	¥ 9,727	¥ 18,572	$ 86,082

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Profit attributable to owners of parent (Note 22)	¥54.92	¥104.85	$0.49
Cash dividends	24.00	21.50	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Profit	¥15,354	¥21,982	$135,877
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	(6,072)	7,771	(53,734)
Deferred gain (loss) on hedges	65	(144)	577
Translation adjustments	(2,300)	4,936	(20,357)
Retirement benefits liability adjustments	173	(63)	1,530
Share of other comprehensive income of affiliates accounted for by the equity method	(411)	1,293	(3,635)
Total other comprehensive income (Note 23)	(8,545)	13,793	(75,619)
Comprehensive income	¥ 6,809	¥35,775	$ 60,258
Total comprehensive income attributable to:			
Owners of the parent	¥ 1,964	¥31,016	$ 17,379
Non-controlling interests	4,845	4,759	42,879

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2016 and 2015

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2015	¥27,672	¥26,872	¥161,286	¥(275)	¥215,555
Cumulative effect of change in accounting principle (Note 3)					—
Restated balance at April 1, 2015	27,672	26,872	161,286	(275)	215,555
Changes during the period:					
Cash dividends (¥24.00 per share)			(4,251)		(4,251)
Profit attributable to owners of parent			9,727		9,727
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock					—
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	—	5,476	(3)	5,473
Balance at the end of current period	¥27,672	¥26,872	¥166,762	¥(278)	¥221,028

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥22,342	¥(124)	¥ 8,101	¥(124)	¥30,195	¥—	¥15,032	¥260,782
Cumulative effect of change in accounting principle (Note 3)								—
Restated balance at April 1, 2015	22,342	(124)	8,101	(124)	30,195	—	15,032	260,782
Changes during the period:								
Cash dividends (¥24.00 per share)								(4,251)
Profit attributable to owners of parent								9,727
Purchases of treasury stock								(3)
Disposal of treasury stock								—
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(6,072)	65	(1,604)	(153)	(7,763)	36	5,600	(2,128)
Total changes during the period	(6,072)	65	(1,604)	(153)	(7,763)	36	5,600	3,345
Balance at the end of current period	¥16,270	¥ (58)	¥ 6,497	¥(276)	¥22,432	¥36	¥20,631	¥264,127

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2015	$244,885	$237,801	$1,427,311	$(2,431)	$1,907,566
Cumulative effect of change in accounting principle (Note 3)					—
Restated balance at April 1, 2015	244,885	237,801	1,427,311	(2,431)	1,907,566
Changes during the period:					
Cash dividends (¥24.00 per share)			(37,621)		(37,621)
Profit attributable to owners of parent			86,082		86,082
Purchases of treasury stock				(25)	(25)
Disposal of treasury stock					—
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	—	48,461	(25)	48,436
Balance at the end of current period	$244,885	$237,801	$1,475,772	$(2,456)	$1,956,002

	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2015	$197,714	$(1,093)	$ 71,688	$(1,094)	$267,216	$ —	$133,022	$2,307,804
Cumulative effect of change in accounting principle (Note 3)								—
Restated balance at April 1, 2015	197,714	(1,093)	71,688	(1,094)	267,216	—	133,022	2,307,804
Changes during the period:								
Cash dividends (¥24.00 per share)								(37,621)
Profit attributable to owners of parent								86,082
Purchases of treasury stock								(25)
Disposal of treasury stock								—
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(53,735)	577	(14,193)	(1,352)	(68,703)	318	49,555	(18,831)
Total changes during the period	(53,735)	577	(14,193)	(1,352)	(68,703)	318	49,555	29,605
Balance at the end of current period	$143,979	$ (516)	$ 57,495	$(2,446)	$198,513	$318	$182,577	$2,337,409

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2014	¥27,672	¥26,872	¥146,654	¥(272)	¥200,925
Cumulative effect of change in accounting principle (Note 3)			(574)		(574)
Restated balance at April 1, 2014	27,672	26,872	146,080	(272)	200,351
Changes during the period:					
Cash dividends (¥19.00 per share)			(3,366)		(3,366)
Profit attributable to owners of parent			18,572		18,572
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock		0		0	0
Change of scope of equity method			(0)		(0)
Net changes in items other than shareholders' equity					
Total changes during the period	—	0	15,206	(2)	15,204
Balance at the end of current period	¥27,672	¥26,872	¥161,286	¥(275)	¥215,555

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2014	¥14,559	¥ 21	¥3,284	¥(112)	¥17,751	¥—	¥ 7,401	¥226,078
Cumulative effect of change in accounting principle (Note 3)								(574)
Restated balance at April 1, 2014	14,559	21	3,284	(112)	17,751	—	7,401	225,503
Changes during the period:								
Cash dividends (¥19.00 per share)								(3,366)
Profit attributable to owners of parent								18,572
Purchases of treasury stock								(3)
Disposal of treasury stock								0
Change of scope of equity method								(0)
Net changes in items other than shareholders' equity	7,783	(144)	4,817	(11)	12,444	—	7,630	20,075
Total changes during the period	7,783	(144)	4,817	(11)	12,444	—	7,630	35,279
Balance at the end of current period	¥22,342	¥(124)	¥8,101	¥(124)	¥30,195	¥—	¥15,032	¥260,782

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 26,243	¥ 34,738	$ 232,241
Adjustments—			
Depreciation and amortization	11,753	11,453	104,008
Impairment loss	4,692	1,112	41,521
Amortization of goodwill	2,190	1,957	19,383
Provision for (reversal of) doubtful accounts	(492)	499	(4,358)
Net changes in defined benefit liability	10,887	469	96,348
Interest and dividends income	(1,824)	(1,624)	(16,144)
Interest expense	1,236	1,136	10,942
Equity in losses (earnings) of affiliates	(761)	(1,021)	(6,734)
Losses on devaluation of marketable securities and investment securities	—	0	—
Losses (gains) on sales of marketable securities and investment securities, net	(33)	(124)	(288)
Loss (gain) on step acquisitions	—	338	—
Losses (gains) on disposal of fixed assets, net	(326)	(101)	(2,883)
Change in assets and liabilities:			
Notes and accounts receivable, trade	(3,045)	9,153	(26,945)
Inventories	(13,249)	(7,257)	(117,244)
Other current assets	(3,739)	9,391	(33,089)
Notes and accounts payable, trade	10,258	(23,159)	90,778
Advances received from customers	1,903	(7,617)	16,844
Other current liabilities	6,432	(984)	56,917
Other	3,751	670	33,193
Total	55,877	29,031	494,490
Interest and dividends income received	3,776	2,205	33,416
Interest paid	(1,061)	(1,172)	(9,386)
Income taxes paid, net	(12,888)	(15,355)	(114,051)
Net cash provided by operating activities	45,705	14,709	404,469
Cash flows from investment activities:			
Payments into time deposits	(30,237)	(45,110)	(267,587)
Proceeds from withdrawal of time deposits	58,436	35,411	517,131
Decrease (increase) in short-term loans receivable	(1,667)	3,126	(14,749)
Proceeds from sales of marketable securities	115	—	1,018
Payments for purchases of fixed assets	(19,526)	(12,075)	(172,796)
Proceeds from sales of fixed assets	3,291	4,783	29,121
Payments for purchases of intangible assets	(1,997)	(2,480)	(17,669)
Payments for purchases of investment securities	(9,632)	(997)	(85,237)
Proceeds from sales of investment securities	75	3,295	662
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,867)	(7,353)	(69,618)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	8	—	69
Payments for long-term loans receivable	(803)	(2,728)	(7,110)
Repayments of long-term loans receivable	20	596	179
Other	(188)	(43)	(1,665)
Net cash used in investment activities	(9,972)	(23,575)	(88,251)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	5,893	(2,352)	52,149
Payment of lease obligation	(2,532)	(2,198)	(22,409)
Proceeds from long-term debt	13,076	8,244	115,717
Repayments of long-term debt	(8,326)	(6,854)	(73,681)
Redemption of bonds	—	(10,000)	—
Dividends paid	(4,251)	(3,366)	(37,621)
Dividends paid to non-controlling shareholders	(2,044)	(1,035)	(18,088)
Other	(2)	275	(19)
Net cash provided by (used in) financing activities	1,813	(17,286)	16,048
Effect of exchange rate changes on cash and cash equivalents	423	1,105	3,740
Net increase (decrease) in cash and cash equivalents	37,969	(25,047)	336,006
Cash and cash equivalents at the beginning of the year	103,296	128,343	914,123
Cash and cash equivalents at the end of the year (Note 13)	¥141,265	¥103,296	$1,250,129

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its affiliated companies (together, the "Group") are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Group's operations encompass forest management as well as timber and building materials-related operations, including procurement, manufacture and sale of timber and building materials; housing-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; operations in overseas countries, including manufacture and sale of timber and building materials and construction and sale of detached houses; and other businesses, including biomass power generation, private-pay elderly care facilities, leasing, and insurance agent business.

2. Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)."

In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments 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 Japanese GAAP but is presented herein as additional information.

As permitted, amounts of less than one million yen are rounded in this annual report.

As of March 31, 2016, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 84 and 26 (72 and 21 in 2015), respectively.

The DRB Group, whose shares were newly acquired, the newly established Sumirin Wood Piece Co., Ltd., the MainVue Homes Group and Sumitomo Forestry India Pvt. Ltd. have been included in the scope of consolidation from the fiscal year ended March 31, 2016.

All shares of Shouei Furniture Co., Ltd., which was a consolidated subsidiary in the previous fiscal year ended March 31, 2015, have been sold and Shouei Furniture Co., Ltd. has been removed from the scope of consolidation from the fiscal year ended March 31, 2016.

Additionally, Beijing BBMG Decoration Engineering Co., Ltd., whose shares were newly acquired, Spacewood Furnishers Pvt. Ltd., whose shares were newly acquired, and the newly established Annadale Development Partners Unit Trust, Annadale Development Partners Pty Ltd. and DNS Asia Investment Pte. Ltd. have been included as equity-method affiliates from the fiscal year ended March 31, 2016.

Additionally, the account closing date of the Company's domestic consolidated subsidiaries is mainly March 31, and the account closing date of the Company's consolidated foreign subsidiaries is mainly December 31.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within twenty years. Immaterial differences are expensed when incurred.

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

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

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 net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

(c) Statement 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 near enough to 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.

(e) Accrued employees' bonuses

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

(f) Accrued directors' and corporate auditors' bonuses

Accrued directors' and corporate auditors' bonuses are provided for payments of bonuses to directors and corporate auditors based on an estimated amount.

(g) Warranty reserve for completed construction

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

The balance of the reserves at March 31, 2016, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥2,770 million ($24,513 thousand).

(h) Accrued employees' retirement benefits

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are charged to income, with minor exceptions, in the fiscal year in which they arise.

(i) Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

The balance of these reserves at March 31, 2016, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥82 million ($721 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:
i) 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 ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are carried at cost.

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

(k) Derivatives

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(l) Inventories

Finished goods, logs and lumber are stated at moving average cost.

Real estate for sale, construction projects in progress and real estate for sale in process are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated using a write-down method based on the decrease in profitability.

The Company recognized ¥438 million ($3,872 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2016.

(m) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. In the Company and its domestic consolidated subsidiaries, 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 its foreign consolidated subsidiaries, depreciation is computed by the straight-line method, with minor exceptions. 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.

(n) Intangible assets

Amortization of intangible assets is computed by the straight-line method. Internal use software costs are amortized by the straight-line method over the estimated useful life of five years.

(o) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in the consolidated statements of income. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(p) Hedge accounting

i) Hedge accounting method:
The deferred hedge accounting method is applied.

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting treatment is used for interest rate swaps in case they satisfy the requirements for the special accounting treatment.

ii) Hedging method:
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.

iii) Scope of hedging:
Certain transactions, including planned transactions and borrowings exposed to interest rate fluctuation risk, etc., in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method:
The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments and the special accounting treatment is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(q) Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

(r) 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.

(s) Revenue recognition

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

Contract revenues, representing revenues from custom-built houses, are recorded by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The Companies account for short-term construction contracts, etc. by the completed-contract-method.

(t) Income taxes

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.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(u) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(v) Appropriations of retained earnings

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

(w) 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.

(x) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2015 have been reclassified to conform to presentation in 2016.

(y) Accounting Change

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013) effective from April 1, 2015.

Under these revised accounting standards, the major accounting changes are as follows:

(1) Any differences arising from changes in a parent's ownership interests in a subsidiary are accounted for as changes in capital surplus when the parent company retains control over the subsidiary.

(2) Acquisition-related costs are accounted for as expenses when incurred.

(3) Regarding business combinations, from the beginning of the fiscal year ended March 31, 2016, the Company changed the accounting method to reflect the revised allocation of purchases price arising from the finalization of provisional accounting treatment on the consolidated financial statements for the period in which the business combination occurs.

(4) "Income before minority interests" in the previous year's consolidated statement of income has been changed to "profit" and "net income" in the previous year's consolidated statement of income has been changed to "profit attributable to owners of parent." In addition, "minority interests" in the previous year's consolidated balance sheet has been changed to "non-controlling interests."

These accounting changes were adopted from the fiscal year ended March 31, 2016 in accordance with the transitional treatment provided in Paragraph 58-2 (4) of Revised Accounting Standard for Business Combinations, Paragraph 44-5 (4) of Revised Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of Revised Accounting Standard for Business Divestitures.

There was no impact on the consolidated financial statements as a result of these accounting changes.

(z) Accounting standards issued but not yet effective

(Implementation Guidance on Recoverability of Deferred Tax Assets)
On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26).

(1) Overview
Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

(2) Scheduled date of adoption
The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

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 ¥113 =US $1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2016. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

5. Securities

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,192	¥23,436	¥(368)	¥50,260
Debt securities	—	—	—	—
Other	¥34,000	¥ —	¥ —	¥34,000

	Millions of yen			
	2016			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,761	¥99	¥—	¥1,860

	Millions of yen			
	2015			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,195	¥31,915	¥(25)	¥59,085
Debt securities	—	—	—	—
Other	¥26,000	¥ —	¥ —	¥26,000

	Millions of yen			
	2015			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,808	¥74	¥(0)	¥1,883

	Thousands of U.S. dollars			
	2016			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	$240,640	$207,398	$(3,259)	$444,779
Debt securities	—	—	—	—
Other	$300,885	$ —	$ —	$300,885

	Thousands of U.S. dollars			
	2016			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	$15,584	$877	$—	$16,461

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Proceeds	¥75	¥294	$662
Gross gains	33	128	288
Gross losses	—	3	—

(c) Impairment of securities

Impairment losses on other securities were ¥0 million for the year ended March 31, 2015.

(d) Investments in affiliates included in "Investment securities" as of March 31, 2016 and 2015 were ¥18,176 million ($160,853 thousand) and ¥12,825 million, respectively.

6. Timberland

The investment in timberland at March 31, 2016 and 2015 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Standing timber:			
Mature timber	¥10,099	¥12,510	$89,374
Growing timber	351	328	3,104
	10,450	12,838	92,478
Land	1,135	1,177	10,044
	¥11,585	¥14,015	$102,522

The timberland accounts at March 31, 2016 and 2015 were reduced by ¥239 million ($2,116 thousand) and ¥242 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2016 and 2015 generally represented short-term borrowings which bore interest of 1.59% and 1.47% per annum, respectively. Long-term debt at March 31, 2016 and 2015 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans, principally from banks and insurance companies, due 2016 to 2035 with interest of 1.95%:			
Secured:			
Loans from banks or other	¥30,623	¥15,985	$271,000
Unsecured:			
Bonds issued	5,000	5,000	44,248
Bonds with subscription rights to shares	20,000	20,000	176,991
Loans from banks or other	37,487	33,579	331,743
Lease obligation	4,368	5,815	38,653
	97,478	80,379	862,635
Portion due within one year:			
Bonds issued	5,000	—	44,248
Loans from banks or other	5,995	8,350	53,050
Lease obligation	1,691	2,146	14,969
	12,686	10,496	112,267
	¥84,792	¥69,883	$750,368

The aggregate annual maturities of bonds issued, long-term debt and lease obligation at March 31, 2016 were as follows:

	Bonds issued		Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2016	¥ 5,000	$ 44,248	¥ 5,995	$ 53,050	¥1,691	$14,969
2017	—	—	11,670	103,271	1,491	13,192
2018	20,000	176,991	19,888	175,998	875	7,741
2019	—	—	11,033	97,640	270	2,385
2020	—	—	6,748	59,715	38	335
Thereafter	—	—	12,777	113,069	3	31
	¥25,000	$221,239	¥68,110	$602,743	¥4,368	$38,653

8. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥ 3,458	¥ 4,342	$ 30,601
Receivables—Notes and accounts, trade	1,375	1,534	12,165
Construction projects in progress	572	587	5,061
Real estate for sale	20,145	15,342	178,273
Real estate for sale in process	38,055	22,821	336,766
Accounts receivable—other	476	34	4,209
Land	3,080	3,258	27,254
Buildings and structures	4,163	3,936	36,840
Machinery, equipment and vehicles	984	467	8,706
Construction in progress	243	62	2,150
Investment securities	12,275	15,721	108,631
Other	1,674	1,321	14,818
	¥86,499	¥69,427	$765,474

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term debt	¥ 4,447	¥ 7,047	$ 39,356
Long-term debt	30,473	15,851	269,673
Other	478	—	4,231
	¥35,398	¥22,898	$313,260

9. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2016 and 2015 consisted of the following:

Location	Major use	Asset category	Millions of yen 2016	Thousands of U.S. dollars 2016
Osaka City, Osaka Prefecture	2 buildings for rental condominiums	Buildings and structures	¥ 405	$ 3,580
		Land	718	6,355
		Total	1,123	9,935
Kokopo, East New Britain, Papua New Guinea	Afforestation business assets	Buildings and structures	662	5,856
		Machinery, equipment and vehicles	414	3,667
		Land	4	37
		Timber	2,002	17,713
		Other	427	3,778
		Total	3,509	31,051
Komatsushima City, Tokushima Prefecture	Idle assets	Land	32	287
		Total	32	287
Saijo City, Ehime Prefecture	Idle assets	Land	28	248
		Total	28	248
			¥4,692	$41,521

The Group classifies assets based on the categories used for management accounting. Rental assets and idle assets are assessed individually from this classification.

For the rental condominiums, considering market value and future profitability, recoverability of the investment amount is considered unlikely, so the book value was reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was based on the net realizable value and value in use. Net realizable value was calculated based on the real estate appraisal amount, and value in use was calculated by discounting future cash flow by 8.0%.

For Afforestation business assets in the Papua New Guinea Afforestation business, after reconsidering the business plan, the recoverability of the investment amount is considered unlikely, so the book value was reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was based on the value in use and was calculated by discounting future cash flow by 16.6%.

For the idle assets, the book values of the assets were reduced to their recoverable amounts, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was a reasonable estimate based on the sales agreement and published real estate values of nearby land.

Location	Major use	Asset category	Millions of yen 2015
Tobishima-mura, Ama-gun, Aichi Prefecture	Wooden building materials manufacturing plant	Buildings and structures	¥852
		Machinery, equipment and vehicles	126
		Land	114
Imari City, Saga Prefecture		Other	3
		Total	1,095
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	17
		Total	17
			¥1,112

10. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes. The effective statutory tax rates for the years ended March 31, 2016 and 2015 were 33.1% and 35.6%, respectively.

The table below shows the differences in the statutory tax rate and effective income tax rate.

	2016	2015
Statutory tax rate	33.1%	—%
Non-deductible expense for purposes	1.1	—
Non-taxable dividend income	(0.5)	—
Per capita portion of inhabitant tax	1.1	—
Amortization of goodwill	2.8	—
Valuation allowance	(2.9)	—
Equity in earnings of affiliates	(1.0)	—
Effect of changes in corporate tax rates	2.8	—
Other	5.2	—
Effective tax rate	41.5%	—%

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2015 is not disclosed because such difference is less than 5% of the statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Deferred tax assets:			
Allowance for doubtful accounts	¥ 826	¥ 722	$ 7,312
Accrued employees' bonuses	3,194	3,155	28,267
Accrued legal welfare expense on employees' bonuses	446	435	3,948
Enterprise taxes	557	383	4,926
Devaluation of real estate for sale	423	617	3,742
Liability for retirement benefits	7,061	4,067	62,487
Devaluation of property	789	855	6,984
Devaluation of financial instruments	1,794	1,910	15,875
Tax loss carryforwards	2,638	2,391	23,348
Impairment loss	1,239	1,151	10,968
Warranty reserve for completed construction	530	549	4,690
Unrealized profit on fixed assets	401	423	3,548
Other	3,319	4,438	29,375
Gross deferred tax assets	23,218	21,096	205,470
Valuation allowance	(7,335)	(8,105)	(64,913)
Total deferred tax assets	15,883	12,991	140,557
Deferred tax liabilities:			
Deferred gains on sales of property	(757)	(799)	(6,698)
Gain on securities contributed to employee retirement benefit trusts	(1,217)	(1,286)	(10,774)
Unrealized gain on available-for-sale securities	(6,752)	(9,359)	(59,750)
Land revaluation differences	(964)	(1,017)	(8,532)
Taxes on undistributed earnings of subsidiaries	(54)	(245)	(478)
Other	(1,211)	(2,743)	(10,717)
Gross deferred tax liabilities	(10,955)	(15,449)	(96,949)
Net deferred tax assets (liabilities)	¥ 4,928	¥ (2,458)	$ 43,608

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2016 and 2015 as follows:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Current assets—Deferred tax assets	¥ 7,377	¥ 7,590	$ 65,281
Investment and other assets—Deferred tax assets	2,573	2,196	22,772
Current liabilities—Other	0	—	0
Long-term liabilities—Deferred tax liabilities	(5,022)	(12,244)	(44,445)
Net deferred tax assets (liabilities)	¥ 4,928	¥ (2,458)	$ 43,608

The "Act to partially revise the Income Tax Act and Others" (Act No. 15 of 2016) and the "Act to partially revise the Local Tax Act and Others" (Act No. 13 of 2016) were enacted on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the year beginning from April 1, 2016 and April 1, 2017, and 30.6% for the temporary differences expected to be realized or settled in the year beginning from April 1, 2018. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥360 million ($3,189 thousand) and deferred gain (loss) on hedges by ¥1 million ($11 thousand), and increase deferred income taxes by ¥738 million ($6,527 thousand) and unrealized gain on available-for-sale securities by ¥ 378million ($3,349 thousand) as of and for the year ended March 31, 2016.

11. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gain on foreign exchange	¥ —	¥ 301	$ —
Loss on foreign exchange	(1,473)	—	(13,033)
Gain on sales of property, plant and equipment	559	293	4,949
Loss on sales of property, plant and equipment	(51)	(15)	(453)
Loss on disposal of property, plant and equipment	(182)	(177)	(1,613)
Gain on bargain purchase	—	70	—
Other, net	534	621	4,726
	¥ (613)	¥1,094	$ (5,424)

12. Selling, General and Administrative Expenses

The components of “Selling, General and Administrative Expenses” for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Salaries and allowances	¥ 46,459	¥44,015	$411,142
Provision for employees’ bonuses	8,930	8,273	79,031
Provision for directors’ and corporate auditors’ bonuses	130	135	1,150
Retirement benefit expenses	14,218	2,453	125,823
Provision for directors’ and corporate auditors’ retirement benefits	14	16	124
Allowance for doubtful accounts	(263)	818	(2,329)
Provision for warranty reserve for completed construction	1,452	1,324	12,850

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were ¥1,503 million ($13,301 thousand) and ¥1,561 million, respectively.

13. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥ 83,499	¥ 81,756	$ 738,927
Short-term investments	34,000	26,000	300,885
Cash equivalents included in short-term loans receivable	29,999	29,993	265,480
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(6,233)	(34,453)	(55,163)
Cash and cash equivalents	¥141,265	¥103,296	$1,250,129

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2016 were mainly as follows:

DRB Enterprises, LLC and seven other companies

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Current assets	¥17,421	$154,170
Non-current assets	320	2,836
Goodwill	4,593	40,645
Current liabilities	(2,071)	(18,323)
Long-term liabilities	(8,677)	(76,789)
Non-controlling interests	(2,798)	(24,758)
Acquisition cost	8,789	77,781
Cash and cash equivalents	(922)	(8,163)
Net expenditure for acquisition of shares	¥ 7,867	$ 69,618

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the fiscal year ended March 31, 2015 were as follows:

Gehan Homes, Ltd. and six other companies

	Millions of yen
	2015
Current assets	¥19,640
Non-current assets	2,108
Goodwill	4,080
Current liabilities	(9,609)
Long-term liabilities	(4,732)
Non-controlling interests	(3,629)
Acquisition cost	7,858
Cash and cash equivalents	(712)
Net expenditure for acquisition of shares	¥ 7,146

Cascadia Resort Communities LLC

	Millions of yen
	2015
Current assets	¥ 558
Non-current assets	—
Goodwill	4
Current liabilities	(341)
Long-term liabilities	—
Translation adjustments	69
Loss on step acquisitions	338
Previously held equity interest before obtaining control	(483)
Acquisition cost	145
Cash and cash equivalents	—
Net expenditure for acquisition of shares	¥ 145

14. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at March 31, 2016 and 2015, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million ($25,284 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by 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 Law.

15. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership 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.

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

16. Contingent Liabilities

Contingent liabilities as at March 31, 2016 and 2015, for loans guaranteed amounted to ¥28,418 million ($251,491 thousand) and ¥31,526 million.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Guarantee on loans from financial institutions:			
Kawasaki Biomass Electric Power Co., Ltd.	**¥ 939**	¥ 1,227	**$ 8,312**
Guarantees of housing loans to customers	**27,479**	30,172	**243,179**
Guarantee on rent payment:			
Sumikyo Co. Ltd.	**—**	127	**—**
Total	**¥28,418**	¥31,526	**$251,491**

17. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term loans are mainly used for repurchase agreement that has a contract with a financial institution with a rating of more than a certain level, and therefore credit risk is insignificant. Short-term investment securities are negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Loans and bonds are mainly used for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transaction (interest rate swap) for hedging about a part. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rate related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payments for loans.

(c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customers at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to investment securities, the Companies regularly monitor prices and the issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)
The Finance Department of Company manages liquidity risk by establishing and revising cash flow plan based on reports from each section.

(d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

(e) Fair value of financial instruments

Fair values of financial instruments were as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 83,499	¥ 83,499	¥ —
Receivables—notes and accounts, trade	121,415	121,415	—
Marketable securities and investment securities:			
Held-to-maturity	1,761	1,860	99
Available-for-sale	84,260	84,260	—
Receivables—loans and other	46,963	46,963	—
Total	¥337,897	¥337,996	¥ 99
Payables—notes and accounts, trade	¥176,444	¥176,444	¥ —
Long-term debt**	68,110	68,358	(247)
Total	¥244,554	¥244,801	¥(247)
Derivatives*:			
Hedge accounting not applied	¥ 1,569	¥ 1,569	¥ —
Hedge accounting applied	(84)	(84)	—
Total	¥ 1,485	¥ 1,485	¥ —

	Millions of yen		
	2015		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 81,756	¥ 81,756	¥ —
Receivables—notes and accounts, trade	118,156	118,156	—
Marketable securities and investment securities:			
Held-to-maturity	1,808	1,883	74
Available-for-sale	85,085	85,085	—
Receivables—loans and other	44,619	44,619	—
Total	¥331,423	¥331,497	¥ 74
Payables—notes and accounts, trade	¥167,563	¥167,563	¥ —
Long-term debt**	49,564	49,663	(100)
Total	¥217,126	¥217,226	¥(100)
Derivatives*:			
Hedge accounting not applied	¥ 171	¥ 171	¥ —
Hedge accounting applied	(252)	(252)	—
Total	¥ (81)	¥ (81)	¥ —

	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	$ 738,927	$ 738,927	$ —
Receivables—notes and accounts, trade	1,074,465	1,074,465	—
Marketable securities and investment securities:			
Held-to-maturity	15,584	16,461	877
Available-for-sale	745,664	745,664	—
Receivables—loans and other	415,601	415,601	—
Total	$2,990,241	$2,991,118	$ 877
Payables—notes and accounts, trade	$1,561,451	$1,561,451	$ —
Long-term debt**	602,744	604,934	(2,190)
Total	$2,164,195	$2,166,385	$(2,190)
Derivatives*:			
Hedge accounting not applied	$ 13,886	$ 13,886	$ —
Hedge accounting applied	(745)	(745)	—
Total	$ 13,141	$ 13,141	$ —

* Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.
** Long-term debt includes the current portion.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions

(1) Assets
(Cash and time deposits, Receivables—notes and accounts, trade, Receivables—loans and other)
Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.
(Marketable securities and Investment securities)
The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities
(Payables—notes and accounts, trade)
Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.
(Long-term debt)
The fair values of long-term debt with floating interest rates approximate book values because the interest rate of long-term debt reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions
See Note 18.

2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity securities	¥ 4,678	¥ 1,603	$ 41,397
Investment in affiliates	18,176	12,825	160,853

3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	2016			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 83,208	¥ —	¥ —	¥—
Receivables—notes and accounts, trade	121,415	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	960	801	—
Other	34,000	—	—	—
Receivables—loans and other	46,963	—	—	—
Total	¥285,585	¥960	¥801	¥—

	Millions of yen			
	2015			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 81,446	¥ —	¥ —	¥—
Receivables—notes and accounts, trade	118,156	—	—	—
Marketable securities and Investment securities:				
Government bonds	114	299	1,396	—
Other	26,000	—	—	—
Receivables—loans and other	44,619	—	—	—
Total	¥270,334	¥299	¥1,396	¥—

	Thousands of U.S. dollars			
	2016			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	$ 736,350	$ —	$ —	$—
Receivables—notes and accounts, trade	1,074,465	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	8,493	7,091	—
Other	300,885	—	—	—
Receivables—loans and other	415,601	—	—	—
Total	$2,527,301	$8,493	$7,091	$—

18. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 3,740	¥ 863	¥ 11	¥ 11
Sell (U.S. dollar)	18,225	—	1,506	1,506
Sell (Australian dollar)	7,057	—	108	108
Buy (U.S. dollar)	3	—	0	0
Currency swap contracts:				
Yen receipt, U.S. dollar payment	1,020	510	(66)	(66)
Total	¥30,045	¥1,373	¥1,560	¥1,560
Interest rate swaps:				
Receive floating pay fixed	1,737	977	9	9
Total	¥ 1,737	¥ 977	¥ 9	¥ 9

	Millions of yen			
	2015			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 1,368	¥ —	¥ 108	¥ 108
Sell (U.S. dollar)	17,855	—	(75)	(75)
Sell (Australian dollar)	3,693	—	189	189
Sell (Chinese yuan)	239	—	(50)	(50)
Buy (NZ dollar)	4,258	—	150	150
Buy (U.S. dollar)	42	—	1	1
Currency swap contracts:				
Yen receipt, U.S. dollar payment	1,020	637	(165)	(165)
Total	¥28,476	¥ 637	¥ 159	¥ 159
Interest rate swaps:				
Receive floating pay fixed	1,736	1,230	12	12
Total	¥ 1,736	¥1,230	¥ 12	¥ 12

	Thousands of U.S. dollars			
	2016			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	$ 33,095	$ 7,638	$ 100	$ 100
Sell (U.S. dollar)	161,285	—	13,329	13,329
Sell (Australian dollar)	62,447	—	960	960
Buy (U.S. dollar)	30	—	0	0
Currency swap contracts:				
Yen receipt, U.S. dollar payment	9,024	4,512	(580)	(580)
Total	$265,881	$12,150	$13,809	$13,809
Interest rate swaps:				
Receive floating pay fixed	15,370	8,645	77	77
Total	$ 15,370	$ 8,645	$ 77	$ 77

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

Derivative transactions to which hedge accounting is applied at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts amount payable	¥ 2,673	¥ —	¥ (3)
Sell (Euro)		2,233	—	(40)
Buy (U.S. dollar)	Accounts amount payable	8,016	—	(213)
Buy (Euro)		5,846	—	(41)
Buy (NZ dollar)	Investments denominated in foreign currencies	21,623	—	212
Appropriated accounting for foreign currency:				
Sell (U.S. dollar)	Accounts amount receivable	49	—	*
Buy (U.S. dollar)	Accounts amount payable	809	—	*
Buy (Euro)		135	—	*
Total		¥41,384	¥ —	¥ (84)
Interest rate swaps:				
Accounted for by exceptional method:				
Receive floating pay fixed	Long-term bank loans	4,627	2,713	*
Total		¥ 4,627	¥2,713	¥ —

	Millions of yen			
	2015			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,099	¥ —	¥ (4)
Sell (Euro)		2,099	—	14
Sell (NZ dollar)		2,718	—	(70)
Buy (U.S. dollar)	Accounts amount payable	10,630	—	122
Buy (Euro)		6,010	—	(315)
Appropriated accounting for foreign currency:				
Sell (U.S. dollar)	Accounts amount receivable	146	—	*
Buy (U.S. dollar)	Accounts amount payable	965	—	*
Buy (Euro)		178	—	*
Total		¥26,848	¥ —	¥(252)
Interest rate swaps:				
Accounted for by exceptional method:				
Receive floating pay fixed	Long-term bank loans	15,814	3,324	*
Total		¥15,814	¥3,324	¥ —

	Thousands of U.S. dollars			
	2016			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts amount payable	$ 23,650	$ —	$ (23)
Sell (Euro)		19,764	—	(352)
Buy (U.S. dollar)	Accounts amount payable	70,942	—	(1,887)
Buy (Euro)		51,739	—	(359)
Buy (NZ dollar)	Investments denominated in foreign currencies	191,350	—	1,876
Appropriated accounting for foreign currency:				
Sell (U.S. dollar)	Accounts amount receivable	434	—	*
Buy (U.S. dollar)	Accounts amount payable	7,159	—	*
Buy (Euro)		1,193	—	*
Total		$366,231	$ —	$ (745)
Interest rate swaps:				
Accounted for by exceptional method:				
Receive floating pay fixed	Long-term bank loans	40,947	24,010	*
Total		$ 40,947	$24,010	$ —

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swaps, are treated in combination with the hedged items; accounts receivable, accounts payable or long-term bank loans, the fair values of these derivatives are included in those of the hedged items.

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

19. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit obligation for the years ended March 31, 2016 and 2015 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥63,879	¥58,213	$565,303
Cumulative effect of change in accounting principle	—	1,189	—
Restated balance at the beginning of the year	63,879	59,402	565,303
Service cost	2,963	2,822	26,223
Interest cost	811	960	7,176
Actuarial gain and loss	10,436	2,365	92,354
Retirement benefits paid	(1,830)	(1,744)	(16,198)
Prior service cost	—	(0)	—
Increase due to change from the simplified method to the principle method	379	—	3,355
Payments due to mass retirement	(571)	—	(5,056)
Decrease due to employment transfer	(112)	—	(988)
Other	(39)	75	(348)
Balance at the end of the year	¥75,916	¥63,879	$671,821

The changes in plan assets for the years ended March 31, 2016 and 2015 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥51,918	¥48,024	$459,447
Expected return on plan assets	1,758	1,153	15,559
Actuarial gain and loss	(1,095)	2,036	(9,691)
Contributions	2,168	2,204	19,187
Retirement benefits paid	(1,452)	(1,500)	(12,848)
Payments due to mass retirement	(273)	—	(2,414)
Balance at the end of the year	¥53,024	¥51,918	$469,240

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥ 802	¥ 782	$ 7,096
Retirement benefit expense	287	169	2,542
Retirement benefits paid	(57)	(109)	(508)
Contributions	(68)	(54)	(603)
Decrease due to change from the simplified method to the principle method	(310)	—	(2,746)
Increase due to employment transfer	112	—	988
Other	(13)	14	(113)
Balance at the end of the year	¥ 752	¥ 802	$ 6,656

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligation	¥ 72,459	¥ 60,974	$ 641,229
Plan assets at fair value	(53,565)	(52,443)	(474,023)
	18,894	8,531	167,206
Unfunded retirement benefit obligation	4,749	4,233	42,031
Net liability for retirement benefits in the balance sheet	¥ 23,644	¥ 12,764	$ 209,237
Liability for retirement benefits	23,718	13,066	209,891
Asset for retirement benefits	(74)	(303)	(654)
Net liability for retirement benefits in the balance sheet	¥ 23,644	¥ 12,764	$ 209,237

The components of retirement benefit expense for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 2,963	¥ 2,822	$ 26,223
Interest cost	811	960	7,176
Expected return on plan assets	(1,758)	(1,153)	(15,559)
Amortization of actuarial gain and loss	11,774	264	104,193
Amortization of prior service cost	—	2	—
Retirement benefit expense under the simplified method	287	169	2,542
Amortization due to change from the simplified method to the principle method	69	—	609
Other	(2)	(1)	(18)
Retirement benefit expense	¥14,144	¥ 3,064	$125,166

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial gain and loss	¥(226)	¥86	$(2,001)
Prior service cost	(4)	(2)	(39)
Total	¥(231)	¥84	$(2,040)

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial gain and loss	¥—	¥226	$—
Unrecognized prior service cost	—	4	—
Total	¥—	¥231	$—

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 were as follows:

	2016	2015
Bonds	56%	56%
Stocks	20%	25%
General account	14%	12%
Other	10%	7%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2016	2015
Discount rates	0.000%–0.678%	0.034%–1.587%
Expected rates of return plan assets	3.4%	2.4%
Expected rate of salary increase (point based plan)	5.5%	5.5%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥863 million ($7,641 thousand) and ¥735 million for the years ended March 31, 2016 and 2015, respectively.

20. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2016 and 2015 were ¥456 million ($4,039 thousand) and ¥595 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen				Thousands of U.S. dollars	
Carrying amount			Fair value	Carrying amount	Fair value
2015	Increase/ (Decrease)	2016	2016	2016	2016
¥8,639	¥3,859	¥12,498	¥11,190	$110,605	$99,026

The main components of net change in carrying amount above included an increase of ¥3,182 million ($28,158 thousand) due to transfer to idle asset, an increase of ¥2,107 million ($18,647 thousand) due to acquisitions of real estate, a decrease of ¥121 million ($1,074 thousand) due to sales of real estate and a decrease of ¥1,183 million ($10,469 thousand) due to impairment loss for the year ended March 31, 2016.

Additionally, fair value is evaluated mainly by third-party appraisers.

21. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into three segments (Timber and Building Materials, Housing, and Overseas) based on division and identified by products, services and geographical areas:

Timber and Building Materials: purchase, manufacture, processing and sale etc. of timber and building materials

Housing: construction, maintenance and renovation of detached houses and apartment buildings, the sale of interior goods, the sale of spec homes, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas: manufacture and sale of timber and building materials, construction and sale of detached houses, etc. in overseas markets

Other: biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business, etc.

	Millions of yen							
As of/Year Ended March 31, 2016	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥405,165	¥454,096	¥172,716	¥1,031,977	¥ 7,313	¥1,039,290	¥ 1,235	¥1,040,524
Inter-segment transfers	21,800	508	15,210	37,518	9,561	47,079	(47,079)	—
Total	426,965	454,604	187,926	1,069,494	16,874	1,086,369	(45,844)	1,040,524
Segment income (loss)	3,352	31,512	13,091	47,955	(1,022)	46,933	(16,427)	30,507
Segment assets	151,057	143,372	178,577	473,006	36,548	509,554	199,634	709,188
Other items:								
Depreciation and amortization	¥ 695	¥ 5,039	¥ 3,919	¥ 9,653	¥ 1,372	¥ 11,024	¥729	¥ 11,753
Amortization of goodwill	—	6	2,185	2,190	—	2,190	—	2,190
Interest income	21	48	153	223	114	337	137	474
Interest expense	450	586	1,336	2,372	185	2,557	(1,320)	1,236
Equity in earnings (losses) of affiliates	(752)	(1)	2,762	2,009	(1,249)	761	0	761
Investments in affiliates	1,843	4	12,949	14,797	643	15,440	(9)	15,431
Increase in tangible and intangible fixed assets	¥ 1,158	¥ 6,251	¥ 4,969	¥ 12,379	¥ 7,348	¥ 19,727	¥ 721	¥ 20,448

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,235 million ($10,927 thousand) of administration department profit.

2. Adjustments for segment income and loss include ¥354 million ($3,130 thousand) of elimination of inter-segment income and loss, ¥11,774 million ($104,193 thousand) of retirement benefits liability adjustments, and ¥4,299 million ($38,046 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥12,995 million ($115,001 thousand) of inter-segment eliminations, ¥212,629 million ($1,881,671 thousand) of corporate asset, which are not allocable to the reportable assets.

As of/Year Ended March 31, 2015	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
	Millions of yen							
Sales and contract revenues:								
Unaffiliated customers	¥401,631	¥453,352	¥133,919	¥ 988,903	¥ 7,298	¥ 996,201	¥ 1,056	¥997,256
Inter-segment transfers	21,389	588	13,105	35,082	9,267	44,349	(44,349)	—
Total	423,020	453,940	147,024	1,023,985	16,565	1,040,549	(43,293)	997,256
Segment income (loss)	4,039	28,302	6,126	38,467	1,175	39,643	(3,219)	36,424
Segment assets	147,990	141,197	149,854	439,042	27,494	466,536	199,002	665,538
Other items:								
Depreciation and amortization	¥ 730	¥ 4,530	¥ 4,203	¥ 9,463	¥ 1,158	¥ 10,622	¥ 832	¥ 11,453
Amortization of goodwill	—	8	1,950	1,957	—	1,957	—	1,957
Interest income	33	51	168	252	1	252	163	415
Interest expense	526	551	1,188	2,265	123	2,388	(1,252)	1,136
Equity in earnings (losses) of affiliates	(179)	0	1,112	933	88	1,021	0	1,021
Investments in affiliates	1,240	6	8,834	10,079	565	10,644	(10)	10,634
Increase in tangible and intangible fixed assets	¥ 974	¥ 4,855	¥ 3,912	¥ 9,741	¥ 4,125	¥ 13,866	¥ 1,522	¥ 15,388

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,056 million of administration department profit.
2. Adjustments for segment income and loss include ¥162 million of elimination of inter-segment income and loss, ¥257 million of retirement benefits liability adjustments, and ¥2,800 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥10,073 million of inter-segment eliminations, ¥209,075 million of corporate asset, which are not allocable to the reportable assets.

As of/Year Ended March 31, 2016	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
	Thousands of U.S. dollars							
Sales and contract revenues:								
Unaffiliated customers	$3,585,533	$4,018,545	$1,528,459	$9,132,537	$ 64,717	$9,197,254	$ 10,927	$9,208,181
Inter-segment transfers	192,920	4,495	134,599	332,014	84,614	416,627	(416,627)	—
Total	3,778,453	4,023,040	1,663,058	9,464,551	149,331	9,613,881	(405,700)	9,208,181
Segment income (loss)	29,667	278,865	115,852	424,384	(9,045)	415,339	(145,368)	269,971
Segment assets	1,336,790	1,268,781	1,580,326	4,185,897	323,433	4,509,330	1,766,669	6,275,999
Other items:								
Depreciation and amortization	$ 6,147	$ 44,594	$ 34,680	$ 85,421	$ 12,138	$ 97,559	$ 6,449	$ 104,008
Amortization of goodwill	—	50	19,333	19,383	—	19,383	—	19,383
Interest income	189	427	1,354	1,970	1,009	2,979	1,215	4,194
Interest expense	3,983	5,182	11,823	20,988	1,639	22,627	(11,685)	10,942
Equity in earnings (losses) of affiliates	(6,651)	(8)	24,440	17,781	(11,050)	6,731	3	6,734
Investments in affiliates	16,314	40	114,589	130,943	5,695	136,638	(83)	136,555
Increase in tangible and intangible fixed assets	$ 10,252	$ 55,318	$ 43,977	$ 109,547	$ 65,030	$ 174,577	$ 6,379	$ 180,956

(Related information)

(1) Products and services information

Year Ended March 31, 2016	Timber and Building Materials	Housing	Other	Total
	Millions of yen			
Sales and contract revenues to unaffiliated customers	¥444,946	¥590,105	¥5,473	¥1,040,524

Year Ended March 31, 2015	Timber and Building Materials	Housing	Other	Total
	Millions of yen			
Sales and contract revenues to unaffiliated customers	438,722	552,991	¥5,544	¥997,256

Year Ended March 31, 2016	Timber and Building Materials	Housing	Other	Total
	Thousands of U.S. dollars			
Sales and contract revenues to unaffiliated customers	$3,937,579	$5,222,172	$48,430	$9,208,181

(2) Geographic area information

Sales information by geographic area was as follows:

Year Ended March 31, 2016	Millions of yen: Japan	Other Area	Total
	¥856,716	¥183,809	¥1,040,524

Year Ended March 31, 2015	Millions of yen: Japan	Other Area	Total
	¥861,552	¥135,705	¥997,256

Year Ended March 31, 2016	Thousands of U.S. dollars: Japan	Other Area	Total
	$7,581,557	$1,626,624	$9,208,181

Information of property, plant and equipment by geographical areas was as follows:

As of March 31, 2016	Millions of yen: Japan	Oceania	Asia	Other	Total
	¥69,451	¥21,215	¥13,494	¥4,540	¥108,700

As of March 31, 2015	Millions of yen: Japan	Oceania	Asia	Other	Total
	¥64,382	¥26,963	¥14,438	¥3,262	¥109,046

As of March 31, 2016	Thousands of U.S. dollars: Japan	Oceania	Asia	Other	Total
	$614,608	$187,744	$119,418	$40,173	$961,943

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of fixed assets)

Year Ended March 31, 2016	Millions of yen: Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	¥60	¥1,123	¥—	¥3,509	¥—	¥4,692

Year Ended March 31, 2015	Millions of yen: Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	¥1,095	¥17	¥—	¥—	¥—	¥1,112

Year Ended March 31, 2016	Thousands of U.S. dollars: Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	$534	$9,935	$—	$31,052	$—	$41,521

(Amortization and balance of goodwill)

As of/Year Ended March 31, 2016	Millions of yen: Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥ 6	¥2,185	¥—	¥—	¥2,190
Balance of goodwill	—	—	8,258	—	—	8,258

As of/Year Ended March 31, 2015	Millions of yen: Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥8	¥1,950	¥—	¥—	¥1,957
Balance of goodwill	—	6	5,975	—	—	5,981

As of/Year Ended March 31, 2016	Thousands of U.S. dollars: Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	$—	$50	$19,333	$—	$—	$19,383
Balance of goodwill	—	—	73,077	—	—	73,077

22. Amounts per Share

(a) Basic and diluted net income per share

Details on the computation of net income per share and net income per share fully diluted as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net income per share:			
Profit attributable to owners of parent	¥ 9,727	¥ 18,572	$86,082
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	9,727	18,572	86,082
Weighted average number of shares issued	177,130,772	177,132,685	—
Net income per share fully diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	10,729,522	10,706,638	—
(Convertible bonds with stock acquisition rights)	(10,706,638)	(10,706,638)	(—)
(Subscription rights to shares)	(22,884)	(—)	(—)

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net assets per share:			
Total net assets	¥ 264,127	¥ 260,782	$2,337,409
Amounts deducted from total net assets:	20,667	15,032	182,894
(Subscription rights to shares)	(36)	(—)	(318)
(Non-controlling interests)	(20,631)	(15,032)	(182,577)
Net assets attributable to shares of common stock	243,460	245,750	2,154,515
The number of shares of common stock used for the calculation of net assets per share	177,129,877	177,131,710	—

23. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥(8,808)	¥10,278	$(77,943)
Reclassification adjustments for gains and losses included in net income	129	(128)	1,138
Amount before tax effect	(8,679)	10,150	(76,805)
Tax effect	2,607	(2,379)	23,071
Unrealized gain (loss) on available-for-sale securities	(6,072)	7,771	(53,734)
Deferred gain (loss) on hedges:			
Amount incurred during the year	111	(250)	983
Reclassification adjustments for gains and losses included in net income	10	11	91
Amount before tax effect	121	(239)	1,074
Tax effect	(56)	94	(497)
Deferred gain (loss) on hedges	65	(144)	577
Translation adjustments:			
Amount incurred during the year	(2,264)	4,936	(20,037)
Reclassification adjustments for gains and losses included in net income	(36)	—	(320)
Amount before tax effect	(2,300)	4,936	(20,357)
Tax effect	—	—	—
Translation adjustments	(2,300)	4,936	(20,357)
Retirement benefits liability adjustments:			
Amount incurred during the year	—	(93)	—
Reclassification adjustments for gains and losses included in net income	231	9	2,040
Amount before tax effect	231	(84)	2,040
Tax effect	(58)	21	(510)
Retirement benefits liability adjustments	173	(63)	1,530
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(414)	1,046	(3,661)
Reclassification adjustments for gains and losses included in net income	3	247	26
Share of other comprehensive income of affiliates accounted for by the equity method	(411)	1,293	(3,635)
Total other comprehensive income	¥(8,545)	¥13,793	$(75,619)

24. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.03% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

The changes in the asset retirement obligations for the years ended March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of the year	**¥1,443**	¥1,433	**$12,766**
Liability incurred for assets acquired	**69**	122	**609**
Accretion expense	**11**	10	**95**
Liabilities settled	**(116)**	(165)	**(1,031)**
Other increases (decreases)	**—**	42	**—**
Balance at end of the year	**¥1,406**	¥1,443	**$12,439**

25. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2016 and 2015 were summarized as follows:

2016			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
Akira Ichikawa	Director of the Company	Sales of housing	**¥51**	**$453**	**¥—**	**$—**

2015			Millions of yen		Millions of yen
Name	Title	Transactions	Amounts		Balance at the end of the year
Akira Ichikawa	Director of the Company	Sales of housing	¥23		¥25

Notes: 1. Prices for sales of housing was determined based on the same terms as third party transactions.
2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

26. Business Combination

Acquisition of shares of DRB Enterprises, LLC and seven subsidiary companies

The Company acquired shares of DRB Enterprises, LLC and seven companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: DRB Enterprises, LLC and seven subsidiary companies

Description of business: Housing business and related businesses

(2) Main reason for implementing the business combination

The Company has been focusing on business expansion with a view to becoming a builder covering the entire United States for the U.S. housing business under a policy that places the overseas business as one of its core growth businesses. In the course of this expansion, the shares of DRB Enterprises, LLC and seven subsidiary companies were acquired to make them subsidiaries.

(3) Date of the business combination: January 1, 2016 (U.S. date)

(4) Legal form of the business combination:
Acquisition of shares for a cash consideration

(5) Name of the merged entity

There was no change in the name of the acquiree after the share acquisition.

(6) Ratio of voting rights acquired: 60%

(7) Main reasons for determining the acquirer

Sumitomo Forestry America, Inc., the Company's consolidated subsidiary, acquired the shares for a cash consideration.

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

Consolidated statement of Income does not include the statement of income of the acquiree as the Company consolidated only balance sheet of the acquiree.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥8,789 million ($77,779 thousand)
Acquisition cost:		¥8,789 million ($77,779 thousand)

Note: The amount above is provisional at the time of acquisition. The actual amount may vary depending on future value adjustment.

4. Description and amount of primary acquisition-related costs

Advisory fee: ¥256 million ($2,266 thousand)

5. Amount of goodwill, reason for recognition, and amortization method and period

(1) Amount of goodwill: ¥4,593 million ($40,646 thousand)

The amount above is provisional since the purchase price allocation has not been finalized and fair value measurement of identifiable assets and liabilities at the acquisition date has not been finalized.

(2) Reason for recognition

The acquisition cost exceeded the fair value of net asset acquired at the date of business combination.

(3) Amortization method and period

Straight-line amortization over the period in which the effect of the acquisition continues. Additionally, amortization period is to be determined on the result of purchase price allocation.

6. Assets acquired and liabilities assumed at the date of business combination

See Note 13.

27. Stock Option Plan

1. Stock option expenses per accounts for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Selling, general and administrative expenses	¥36	¥—	$318

2. Description of stock options

(1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8
	Executive officers of the Company: 11
	Total: 17
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares
Grant date	August 20,2015
Vesting conditions	No provisions
Eligible service period	No provisions
Exercise period	From August 21,2015 to August 20,2035

Note: Converted into the number of equivalent shares.

(2) Volume and changes in stock options

The number of stock options is converted into the number of equivalent shares.

1) Number of stock options

Year Ended March 31,2016	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)
Unvested stock options	
As of March 31, 2015	—
Granted	38,800
Forfeited	—
Vested	38,800
Unvested	—
Vested stock options	
As of March 31, 2015	—
Vested	38,800
Exercised	—
Forfeited	—
Unexercised	38,800

2) Unit price information

Year Ended March 31,2016	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)
Exercise price	¥1($0.01)
Average stock price when exercised	—
Fair unit value on the grant date	¥1,233 ($10.91)

3. Method for estimating a fair unit price for stock options

The method used to estimate a fair unit price for the Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type) as of the end of the current fiscal year is described below.

(1) Valuation technique used: Black-Scholes model

(2) Principal parameters and estimation method used

Year Ended March 31,2016	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)
Stock price volatility (Note 1)	33.81%
Expected remaining period (Note 2)	11.5 years
Expected dividends per share (Note 3)	¥21.5 ($0.19)
Risk-Free rate (Note 4)	0.48%

Notes: 1. Stock price volatility was computed by the actual stock prices of the Company during the period from February 20, 2004 to August 20, 2015.
2. Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.
3. The expected dividends per share was calculated at the actual amount for the year ended March 31, 2016.
4. The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

4. Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

28. Additional Information

Acquisition of significant assets

On December 9, 2015, the Board of Directors of the Company resolved to acquire timberlands and related assets owned by Tasman Bay Forests Company of New Zealand through Sumitomo Forestry NZ Limited, a wholly-owned subsidiary of the Company, and entered into an agreement for sale and purchase of the assets on December 18, 2015.

1. Reason for the acquisition

With future population growth, economic growth mainly in developing countries and a surge of concern for the global environment as a backdrop, the Company expects growth in demand for timber in the mid-to-long term, especially for sustainably managed timber resources.

The timberlands to be purchased comprise a radiata pine plantation of approximately 30,000 hectares, located in Nelson, New Zealand. Radiata pine is highly versatile, which contributes to its price competitiveness, because of its fast growth, stable supply, uniform wood quality and so forth, and the Company can expect steady income over the long term. Also, the land has a competitive edge due to its site location, and the Company can also expect a synergies with the Group's manufacturing and distribution business.

2. Name of counterparty and details of the assets to be acquired

(1) Name of counterparty: Tasman Bay Forests Company

(2) Details of the assets to be acquired: Timberland assets

3. Date of completion of acquisition

The acquisition is scheduled to be completed on June 30, 2016, subject to consent from the government of New Zealand and other relevant parties.

4. Acquisition cost and payment method

An acquisition cost of approximately ¥28,000 million (US$247,788 thousand) is to be paid by a cash consideration. However, the estimated Japanese yen amount may differ from the actual acquisition cost due to future fluctuations in the exchange rate.

29. Subsequent Events

(i) Transactions under common control

Acquisition of additional shares in subsidiary

1. Summary of the business combination

(1) Name of the acquiree and business description
Name of the acquiree: Gehan Homes, Ltd. and six other companies
Description of business: Housing business and related businesses

(2) Date of the business combination
April 29, 2016 (U.S. date)

(3) Legal form of the business combination
Acquisition of shares for a cash consideration

(4) Name of the merged entity
No change in name

(5) Other matters
Shares held by non-controlling interests were acquired to accelerate efforts to create synergies between the Group companies. As a result, the Company's ratio of voting rights increased from 51% to 100%.

2. Summary of accounting treatment

The Company will account for the acquisition as a transaction under common control based on the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of September 13, 2013).

3. Matters pertaining to acquisition of additional shares

Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥14,744 million ($130,478 thousand)
Acquisition cost:		¥14,744 million ($130,478 thousand)

4. Matters pertaining to change in equity of parent company related to transaction with non-controlling interests

(1) Key factors behind change in capital surplus
Acquisition of additional shares in subsidiary

(2) Amount of reduction in capital surplus resulting from transaction with non-controlling interests
Not yet determined.

(ii) Issuance of unsecured bonds

The Company issued the third series of unsecured straight bonds (with inter-bond pari passu clause) on June 17, 2016. An overview of the conditions is provided below.

The third series of unsecured straight bonds (with inter-bond pari passu clause)
(1) Total amount of corporate bonds:
¥20,000 million ($176,991 thousand)

(2) Issue price: ¥100 ($0.88) per ¥100 ($0.88) face value

(3) Interest rate: 0.330% per annum

(4) Redemption date: June 17, 2026

(5) Redemption method: Lump-sum redemption at maturity

(6) Application of the funds:
To be appropriated to the acquisition of forest assets in New Zealand by a consolidated subsidiary.

Building a better
working world

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Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 24, 2016
Tokyo, Japan