Financial Section

Contents

Eleven-Year Summary

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen			
	2013	2012	2011	2010
Operating Results:				
Net sales	¥845,184	¥831,870	¥797,493	¥723,923
Gross profit	141,436	136,873	132,568	124,269
Selling, general and administrative expenses	116,105	117,682	118,330	114,522
Operating income	25,330	19,191	14,238	9,747
Recurring income*1	26,981	20,714	14,206	9,465
Net income (loss)	15,923	9,271	5,175	2,377
Financial Position:				
Total assets	¥547,973	¥503,496	¥489,417	¥469,738
Working capital*2	91,335	94,509	89,665	88,338
Interest-bearing debt	69,229	67,923	69,229	66,786
Total net assets	193,250	169,335	163,110	162,930
Cash Flows:				
Cash flows from operating activities	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239
Cash flows from investment activities	(28,662)	(32,903)	(13,247)	(19,117)
Cash flows from financing activities	(5,305)	(5,622)	372	11,546
Cash and cash equivalents at the end of the year	75,658	63,839	75,582	71,662
Capital Investment:				
Tangible fixed assets*3	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636
Intangible fixed assets	2,890	2,786	2,434	1,561
Others	343	194	215	395
Total	10,291	13,950	14,572	12,592
Depreciation and amortization	8,978	8,469	8,437	8,502
	Yen			
Per Share Data:				
Net income (loss)	¥ 89.89	¥ 52.34	¥ 29.2	¥ 13.4
Net assets	1,086.68	954.8	919.5	917.8
Cash dividends	17.0	15.0	15.0	15.0
	%			
Financial Ratios:				
Gross profit margin	16.7	16.5	16.6	17.2
Operating income margin	3.0	2.3	1.8	1.3
Recurring income margin	3.2	2.5	1.8	1.3
Return on assets (ROA)*4	5.1	4.2	3.0	2.1
Return on equity (ROE)*4	8.8	5.6	3.2	1.5
Equity ratio	35.1	33.6	33.3	34.6
Interest-bearing debt ratio*5	26.5	28.7	29.8	29.1
Current ratio	133.1	137.1	136.8	140.3
Interest coverage ratio [times]	14.2	10.8	8.2	6.8

*1. Recurring income = Operating income + Non-operating income – Non-operating expenses
Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.
*2. Working capital = Current assets – Current liabilities

Millions of yen						
2009	2008	2007	2006	2005	2004	2003
¥823,810	¥861,357	¥911,674	¥791,128	¥723,193	¥673,779	¥645,100
133,493	135,277	141,117	127,853	125,582	120,778	109,632
126,656	128,041	120,711	112,407	107,116	103,201	100,859
6,837	7,235	20,405	15,446	18,466	17,577	8,773
6,160	7,659	21,259	16,800	18,692	17,074	9,721
1,028	1,115	11,954	10,842	8,014	9,870	(15,440)
¥427,738	¥450,730	¥500,136	¥464,193	¥370,684	¥369,755	¥357,322
81,700	64,156	76,453	68,037	67,579	66,377	60,260
49,127	25,816	25,739	22,067	15,580	19,929	16,497
156,192	173,089	188,855	175,206	152,500	146,269	129,727
¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734
(29,062)	(17,587)	(7,102)	(8,998)	(12,895)	(7,646)	2,026
24,196	(4,262)	665	(14,039)	(7,087)	(735)	(8,171)
40,730	54,475	50,311	49,628	55,928	69,312	52,029
¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761
2,013	1,694	1,586	1,857	1,673	1,468	2,077
150	222	420	454	549	883	283
26,238	11,494	9,026	10,443	9,237	6,392	5,123
8,477	7,258	6,476	6,403	6,452	6,447	5,985
Yen						
¥ 5.8	¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)
880.9	976.0	1,059.2	996.0	866.5	830.5	736.4
15.0	15.0	15.0	13.0	13.0	13.0	10.0
%						
16.2	15.7	15.5	16.2	17.4	17.9	17.0
0.8	0.8	2.2	2.0	2.6	2.6	1.4
0.7	0.9	2.3	2.1	2.6	2.5	1.5
1.4	1.6	4.4	4.0	5.0	4.7	2.7
0.6	0.6	6.6	6.6	5.4	7.2	(11.1)
36.5	38.4	37.5	37.7	41.1	39.6	36.3
23.9	13.0	12.1	11.2	9.3	12.0	11.3
141.6	127.6	129.3	129.3	137.4	135.7	132.6
4.5	4.5	11.2	10.8	18.6	21.9	18.3

*3. As of March 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.
*4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
ROA = Recurring income / Total assets
ROE = Net income (loss) / Shareholders' equity
*5. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

Management Discussion and Analysis

Market Overview

Against the backdrop of reconstruction-related demand from the Great East Japan Earthquake, the Japanese economy displayed signs of a gentle recovery in fiscal 2012, ended March 31, 2013. However, exports and production activities stagnated and company earnings were held in check due to the sluggishness of the European economy and the deceleration of economic growth in China and the rest of Asia amid a slowdown of the global economy. The severe employment situation also continued. On the other hand, signs of a recovery could be seen, including a fall in the yen from historical highs and the beginning of a recovery in stock prices. This was due to expectations that the change in the Japanese government would lead to agile and flexible economic and fiscal management.

With respect to the domestic housing market, which has a deep relationship to our Group businesses, housing loan interest rates hovered at low levels. In addition, reconstruction-related demand following the Great East Japan Earthquake was seen along with demand generated by government housing acquisition promotion policies, such as reconstruction support and the housing eco-point system. As a result, new housing starts were steady, increasing 6.2% year on year to 893 thousand. Of this number, owner-occupied dwellings totaled 317 thousand, a gain of 3.8% year on year.

Consolidated Operating Results

1 Net Sales and Orders Received

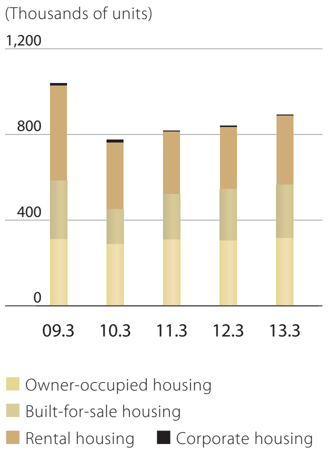
Net sales increased 1.6% year on year to ¥845,184 million. This was primarily due to an increase in sales in the Custom-Built Detached Housing Business and the Renovation Business, as well as a rise in housing sales in the United Sates recorded by the Overseas Business.

The value of orders received for custom-built detached housing totaled ¥314,240 million, up 6.5% compared with the previous fiscal year. This rise was mainly attributable to a 1.6% year-on-year increase in the number of orders received, an upswing in environmentally sound equipment and higher unit prices in line with an expansion in total floor area per building following a boost in the percentage of rebuilding.

2 Selling, General and Administrative Expenses

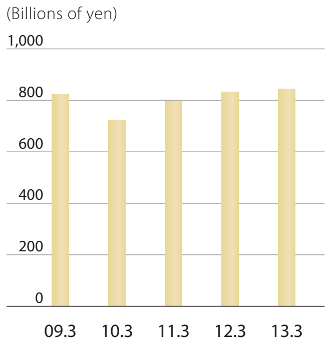
Selling, general and administrative expenses totaled ¥116,105 million, a decrease of 1.3% compared with the previous fiscal year, but increased 3.3% to ¥116,457 million after excluding actuarial difference in accounting for retirement benefit obligations. The increase in selling, general and administrative expenses based on the above actuarial difference was caused mainly by an upswing in expenses accompanying the expansion of the Renovation Business.

Number of New Housing Starts in Japan

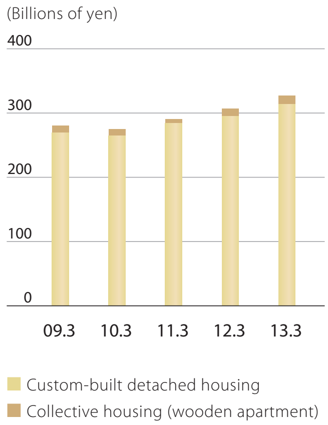


Source: Ministry of Land, Infrastructure, Transport and Tourism

Net Sales



Amount of Orders Received



3 Operating Income, Recurring Income

Operating income improved 32.0% year on year to ¥25,330 million, and recurring income rose 30.3% to ¥26,981 million. These increases were primarily attributable to higher net sales and gross profit as well as the positive impact of actuarial difference in accounting for retirement benefit obligations of approximately ¥400 million in fiscal 2012. This is in contrast to a negative impact totaling approximately ¥4,900 million in fiscal 2011.

Excluding the impact of the above-mentioned actuarial difference, operating income amounted to ¥24,979 million, an increase of 3.6% year on year, and recurring income totaled ¥26,630 million, an improvement of 3.9%.

4 Net Income

Net income improved 71.8% year on year to ¥15,923 million. This was due to higher year-on-year income levels across the board, which offset the booking of an extraordinary loss totaling ¥971 million, including approximately ¥300 million following the transfer of equity in a Chinese building materials manufacturing subsidiary.

Net income per share came to ¥89.89, an increase of ¥37.55 from the previous fiscal year.

Segment Results

* Segment net sales figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section. From fiscal 2012, the Company has changed its business segment classifications to "Timber and Building Materials," "Housing," "Overseas" and "Other Businesses." For the following year-on-year comparisons, therefore, comparisons were made after replacing the figures for the previous fiscal year with figures for the segment classification reflecting the said changes.

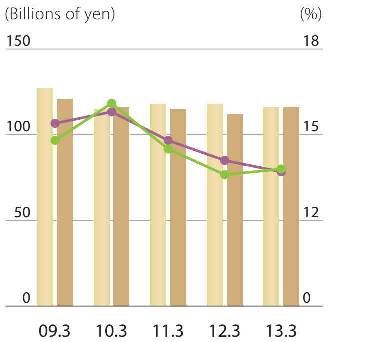
1 Timber and Building Materials Business

Net sales dipped 1.0% year on year to ¥401,266 million, and recurring income declined 1.6% to ¥4,704 million. Regarding market conditions in fiscal 2012, demand slowed in contrast to a surge in fiscal 2011 centered on imported plywood following the Great East Japan Earthquake. However, a recovery occurred in the housing market beginning in the second half that helped the entire Timber and Building Materials Business maintain performance on par with the previous fiscal year.

Regarding specific initiatives, in the domestic timber and building materials distribution business, we focused our efforts on expanding the sales of environmentally sound products such as plantation timber and certified timber as well as seeking to capture the demand accompanying an increase in the number of new housing starts and to further bolster links with partners.

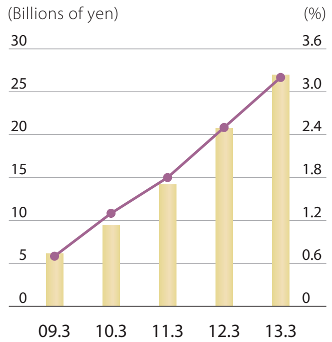
With regards to the timber and building materials distribution business overseas, we worked to expand the sales of the Group's products focusing on China and Southeast Asia and, in an effort to construct a sales structure for products, established a subsidiary in Shanghai, China and a subsidiary in Ho Chi Minh City, Vietnam. While being impacted by a steep rise in the price of raw materials in the domestic building materials manufacturing business, we strove to expand sales by developing new customers.

SG&A Expenses and SG&A Expenses Ratio

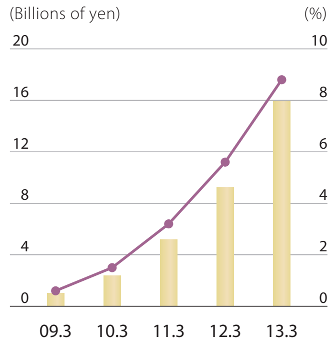


*SG&A expenses ratio = SG&A expenses / Net sales

Recurring Income and Recurring Income Margin



Net Income and ROE



2 Housing Business

Net sales increased 3.8% year on year to ¥430,774 million, and recurring income edged up 1.7% to ¥26,227 million. In the mainstay Custom-Built Detached Housing Business, price per unit and net sales both increased due mainly to a year-on-year rise in the installation rate of environmentally sound equipment such as solar power systems. This result occurred despite lower unit sales compared with the previous fiscal year. In addition, net sales in the Renovation Business remained strong, increasing 10.6% year on year, while sales in the Apartment Business and the Detached Spec Homes Business grew. Consequently, the Housing Business experienced increases in both sales and profits.

Custom-Built Housing Business

In the Custom-Built Detached Housing Business included within the Custom-Built Housing Business, we endeavored to expand our share of the three major metropolitan areas while putting efforts into increasing the installation rate of environmentally sound equipment, including solar power systems and household fuel cells (*ENE-FARM*). In addition, we worked to expand orders by proactively presenting our proprietary Big-Frame (BF) construction method, which features superior seismic resistance and utilizes greater design flexibility.

With regard to concrete efforts for promoting sales, we opened *Sumai Haku* housing fairs in various locations, focusing on the three major metropolitan areas of Tokyo, Osaka and Nagoya. These housing fairs can offer services related to safe, secure and comfortable housing that takes into consideration the environment and seismic resistance. We also developed a *WEB Sumai Haku* on the Company's website. On the product strategy front, we worked to further bolster the seismic resistance of our BF construction method by increasing pillar and beam joint strength based on improvements to the existing joint metal. Moreover, against the backdrop of heightened customer interest in environmentally sound equipment, we also released the designable product, *Smart Kodachi*, which offers a selection of 388 different room layout plans installed with a variety of specifications and equipment along with making solar power systems standard equipment.

In the Apartment Business, we began sales of the new detached rental housing, *ForestMaison Houses for Rent*. In addition, we worked to expand orders by increasing product appeal through the consolidation of our rental housing product brands into *ForestMaison*.

Renovation and Leasing Housing Business

With regards to the Renovation Business—which is included within the Renovation and Leasing Housing Business—we endeavored to enhance the degree of recognition of our renovation product brand, *Reforest*. We also worked to bolster our sales capabilities principally in large-market metropolitan areas. In addition, we proactively sought to expand orders by releasing *Smart Reforest*, which offers renovated housing equipped with solar power systems and other environmentally sound equipment as well as enhances seismic resistance, thermal insulation and air sealing performance.

Housing Business

(Years ended March 31)		2010	2011	2012	**2013**
Orders					
Custom-Built Detached Housing	(¥million)	¥265,203	¥284,420	¥295,194	**¥314,240**
	(Units)	8,593	8,926	8,962	**9,105**
Wooden Apartment	(¥million)	¥ 6,969	¥ 7,343	¥ 11,169	**¥ 13,043**
	(Units)	736	775	986	**1,138**
Sales					
Custom-Built Detached Housing	(¥million)	¥264,215	¥270,903	¥294,081	**¥300,936**
	(Units)	8,580	8,721	9,007	**8,999**
Wooden Apartment	(¥million)	¥ 5,630	¥ 6,681	¥ 7,899	**¥ 9,371**
	(Units)	670	724	772	**858**
Detached Spec Homes	(¥million)	¥ 7,851	¥ 9,567	¥ 9,862	**¥ 11,376**
	(Units)	183	226	225	**254**

In the Existing Home Renovation Business (resale of renovated homes), we focused on purchasing activities for existing homes in anticipation of an expansion in the existing homes market.

Results were firm in the Real Estate Distribution Business and the Real Estate Management Business because of our efforts to develop a management organization corresponding to market trends and to bolster earnings power.

Detached Spec Homes / MOCCA (wood use Integration) Business

In the Detached Spec Homes Business, we worked to enhance sales capabilities while expanding business scale. In the MOCCA (wood use integration) Business, we aim to expand new usages of timber raw materials through the adoption of timber construction and wood-based interiors in non-residential buildings. We are also steadily moving our business forward by accepting orders to construct timber-based buildings, including a child care facility, an elderly care facility and a cafe.

3 Overseas Business

Net sales in the Overseas Business climbed 10.5% year on year to ¥38,657 million and reported a recurring loss of ¥1,840 million, compared with a recurring loss of ¥2,938 million in the previous fiscal year. The Company's Overseas Business reported losses across the board in fiscal 2012, reflecting the impact of severe competition mainly on its Chinese building materials manufacturing business. However, deficits diminished compared with the previous fiscal year thanks largely to improved earnings in the building materials business in Australia, and higher sales in the housing business in the United States.

In the overseas buildings materials manufacturing business, results in New Zealand were firm due to increased sales volume directed towards Japan. In Indonesia, results were sluggish due to a collapse in unit selling prices caused by competition with low cost import goods. In Australia, losses improved compared with the previous fiscal year thanks to a focus on domestic sales in light of the worsening profitability of exports caused by the strong Australian dollar. Although we worked to expand production volume in China, harsh conditions continued. In Vietnam, we began the commercial production of particle board in May 2012 and sought to expand production volume.

Regarding the overseas housing business, losses improved compared with the previous fiscal year due to an increased number of sold houses in the United States against the backdrop of an upswing in the housing market. In Australia, we made an effort to expand orders in light of that country's home acquisition support policy. In China, we faced an uphill battle given the state of the real estate market.

In the afforestation business, we worked to promote business operations by expanding the area of tree-planting in Indonesia in order to stably supply environment-friendly raw materials.

Segment Performance Highlights

	Millions of yen			
(Years ended March 31)	2012	2013	2012/2013 (change)	(% of change)
Net Sales	¥831,870	**¥845,184**	+13,315	+ 1.6%
Timber and Building Materials Business	405,350	**401,266**	− 4,084	− 1.0%
Housing Business	415,098	**430,774**	+15,676	+ 3.8%
Overseas Business	34,971	**38,657**	+ 3,686	+10.5%
Other Businesses	14,049	**15,406**	+ 1,357	+ 9.7%
Adjustments	(37,599)	**(40,919)**	− 3,320	—
Recurring Income	¥ 20,714	**¥ 26,981**	+ 6,267	+30.3%
Timber and Building Materials Business	4,781	**4,704**	− 77	− 1.6%
Housing Business	25,800	**26,227**	+ 427	+ 1.7%
Overseas Business	(2,938)	**(1,840)**	+ 1,098	—
Other Businesses	728	**754**	+ 27	+ 3.7%
Adjustments	(7,655)	**(2,863)**	+ 4,792	—

* 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.
From fiscal 2012, the Company has changed its business segment classifications to "Timber and Building Materials," "Housing," "Overseas" and "Other Businesses." For the following year-on-year comparisons, therefore, comparisons were made after replacing the figures for the previous fiscal year with figures for the segment classification reflecting the said changes.

4 Other Businesses

In addition to the above noted businesses, the Group engages in the management of private-pay elderly care facilities, the lease business, various service businesses that include the insurance agency business (which mainly targets housing customers), the manufacture and sales business for farming and gardening materials, and information systems development targeting each Group company. Other businesses posted net sales of ¥15,406 million, an increase of 9.7% year on year, and a recurring income of ¥754 million yen, a rise of 3.7%.

Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Years ended March 31)	Millions of yen 2012	2013
Sumitomo Forestry Crest Co., Ltd.	¥ 173	¥ 165

Housing Business

(Years ended March 31)	Millions of yen 2012	2013
Sumitomo Forestry Residential Co., Ltd.	¥ 472	¥ 536
Sumitomo Forestry Home Engineering Co., Ltd.	932	769
Sumitomo Forestry Home Service Co., Ltd.	132	210
Sumitomo Forestry Landscaping Co., Ltd.	124	209
Sumitomo Forestry Home Tech Co., Ltd.	2,641	2,705

Overseas Business

(Years ended December 31)	Millions of yen 2011	2012
Overseas Subsidiaries*		
PT. Kutai Timber Indonesia (Indonesia)	¥ 207	¥ 200
Alpine MDF Industries Pty Ltd. (Australia)	(457)	(150)
Nelson Pine Industries Ltd. (New Zealand)	1,152	1,407

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

	US$	AU$	NZ$
FY2011:	79.70	82.31	63.07
FY2012:	79.80	82.65	64.66

Financial Position and Cash Flow

1 Financial Position

At the end of March 2013, total assets stood at ¥547,973 million, an increase of ¥44,477 million year on year, mainly as a result of an increase in liquidity because of higher sales and earnings as well as an upswing in investment securities amid a recovery in the market prices of stock holdings.

Liabilities increased by ¥20,562 million to ¥354,723 million. This growth was mainly the result of an increase in notes and accounts payable, trade in the Housing Business because of a greater number of homes completed near the fiscal year-end settlement date, and a rise in deferred tax liabilities related to valuation gains on stock holdings.

Interest-bearing debt increased ¥1,306 million year on year to ¥69,229 million. However, the interest-bearing debt ratio fell from 28.7% in the previous fiscal year-end to 26.5% due to an increase in shareholders' equity accompanying the accumulation of retained earnings amounting to ¥13,265 million.

Net assets totaled ¥193,250 million, and the equity ratio was 35.1%.

2 Cash Flow

Net cash provided by operating activities was ¥45,910 million. In addition to higher income before income taxes and minority interests and depreciation and amortization, this rise resulted mainly from factors that increased cash, such as increases in notes and accounts payable, trade and inventories, which together exceeded such cash-decreasing factors as income taxes paid.

Net cash used in investment activities totaled ¥28,662 million. This decrease mainly resulted from funds management based on time deposits, as well as capital expenditures.

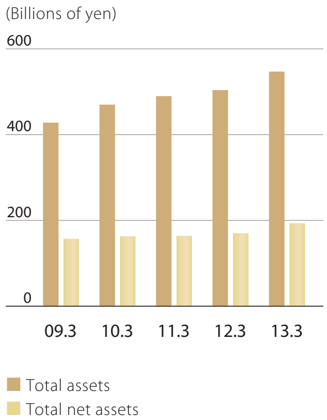
Net cash used in financing activities was ¥5,305 million. This decline was chiefly due to the payment of dividends and repayments of finance lease obligations.

As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥75,658 million, an increase of ¥11,819 million from the end of the previous fiscal year.

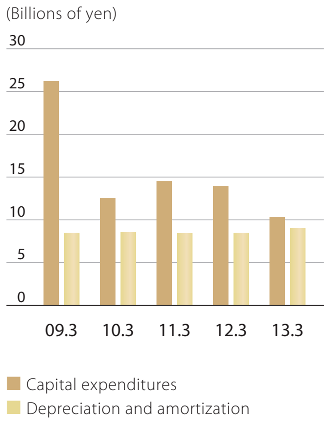
3 Capital Expenditures

Capital expenditures decreased by 26.2%, from ¥13,950 million in the previous fiscal year to ¥10,291 million in the fiscal year under review. Investment in tangible fixed assets declined 35.7% year on year to ¥7,058 million, while investment in intangible assets increased 3.7% to ¥2,890 million. Major investments included ¥3,100 million for system investment, ¥1,700 million for plant equipment in domestic and overseas manufacturing businesses, and ¥1,600 million for investment in reconstructing housing display centers.

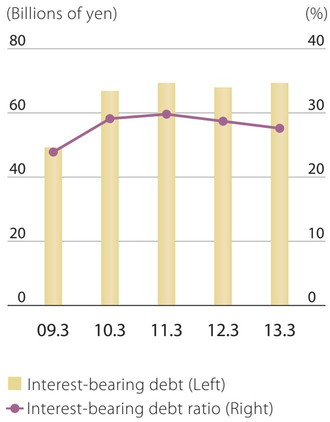
Total Assets and Total Net Assets



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 that could impact the Group's business results.

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 business results by weakening customers' appetite for purchasing housing.

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 substantial falls in land prices have the potential to impact the Group's business results.

4) Tax System Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce last-minute demand in housing purchases and thus temporarily increasing housing demand. However, this could later invite a sharp reactive decline, with a possibility of the Group's results being affected.

2 Statutory Changes

Laws and regulations surrounding the Housing Business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Architect Act, 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 clean-up). 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 business results.

3 Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the profitability of the Timber and Building Materials 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 price for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's business results.

4 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange forward contracts and other means. However, temporary exchange rate fluctuations greater than those expected may occur. Also, these is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and building materials overseas.

5 Product Quality Assurance

The Group endeavors to implement complete quality control of its key product, housing, and all aspects of its operations. However, unforeseen circumstances can potentially lead to significant quality issues that could influence the Group's business results.

6 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 business results.

7 Retirement Benefit Obligations

A significant deterioration in the operating environment for the Group's pension assets, such as substantial fluctuations in the domestic stock market or the necessity to revise the assumptions for pension actuarial calculations, can entail an increase in pension assets or increase the costs associated with the pension accounts, and could influence the Group's business results and financial position.

8 Stock Market

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

9 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 caused by a natural disaster could influence Group business results.

10 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 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 its business results.

11 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, or other expenses that could influence the Group's business results.

12 Decline in the Value of Assets under Management

In the event that a marked deterioration in market conditions led 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 business results and financial position.

13 Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables, etc. and sets appropriate limits and reserves for credit losses to avoid exposure to credit risk. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's business results and financial position.

14 Litigation Risk

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

15 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 business results and financial position could be impacted.

* Statements in this annual 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 12, 16)	¥ 56,155	¥ 64,870	$ 597,398
Marketable securities (Notes 5, 12, 16)	11,000	15,000	117,021
Receivables —			
Notes and accounts, trade (Notes 7, 16, 17)	125,933	124,883	1,339,717
Loans and other (Note 16)	84,870	48,279	902,872
Inventories —			
Finished goods, logs and lumber (Note 7)	22,276	20,977	236,978
Developed land and housing for sale	27,894	34,880	296,744
Land and housing projects in progress	27,057	28,397	287,840
Deferred tax assets (Note 9)	8,077	7,971	85,929
Other current assets	5,506	5,004	58,571
Allowance for doubtful accounts	(1,291)	(1,329)	(13,730)
Total current assets	367,478	348,930	3,909,340
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7, 8)	23,573	24,475	250,781
Buildings and structures (Notes 7, 8)	51,621	49,794	549,158
Machinery and equipment (Notes 7, 8)	68,264	57,363	726,208
Timberland (Note 6)	11,872	11,236	126,301
Construction in progress	1,346	5,973	14,316
Leased assets	8,139	8,330	86,587
	164,815	157,171	1,753,351
Less accumulated depreciation	(78,915)	(71,530)	(839,525)
Net property, plant and equipment	85,900	85,641	913,826
Intangible assets, net of amortization:			
Goodwill (Note 8)	737	924	7,835
Other intangible assets (Note 8)	8,420	7,466	89,578
Total intangible assets	9,157	8,390	97,413
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	59,588	48,487	633,917
Long-term loans and receivables	3,484	5,342	37,060
Deferred tax assets (Note 9)	1,343	1,251	14,290
Other assets	23,243	8,666	247,270
Allowance for doubtful accounts	(2,220)	(3,211)	(23,615)
Total investments and other assets	85,439	60,534	908,922
Total assets	¥547,973	¥503,496	$5,829,501

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 4) 2013
Current liabilities:			
Payables —			
Notes and accounts, trade (Notes 16, 17)	¥169,623	¥155,425	$1,804,505
Other	8,087	10,131	86,030
Short-term debt (Note 7)	15,424	14,068	164,086
Current portion of long-term debt (Note 7)	10,571	6,693	112,458
Current portion of lease obligation (Note 7)	1,067	1,217	11,356
Advances received from customers	44,523	39,597	473,644
Accrued income taxes	5,589	5,749	59,457
Accrued employees' bonuses	9,392	8,931	99,916
Accrued directors and corporate auditors' bonuses	110	95	1,170
Other current liabilities (Notes, 3, 23)	11,756	12,515	125,065
Total current liabilities	276,143	254,421	2,937,687
Long-term liabilities:			
Bonds issued (Note 7)	15,000	15,000	159,574
Long-term debt (Notes 7, 17)	24,189	28,284	257,330
Long-term lease obligation (Note 7)	2,978	2,661	31,679
Deferred tax liabilities (Note 9)	10,198	7,316	108,485
Accrued employees' retirement benefits (Note 18)	9,720	10,033	103,405
Other long-term liabilities (Notes 3, 23)	16,496	16,445	175,486
Total long-term liabilities	78,580	79,740	835,959
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13)			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2013 and 177,410,239 shares in 2012	27,672	27,672	294,384
Capital surplus	26,872	26,872	285,867
Retained earnings	127,489	114,223	1,356,264
Treasury stock: 273,712 shares in 2013 and 271,922 shares in 2012	(269)	(268)	(2,862)
Total shareholders' equity	181,763	168,499	1,933,653
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	12,132	5,734	129,066
Deferred gain on hedges	249	192	2,648
Translation adjustments	(1,654)	(5,291)	(17,592)
Total accumulated other comprehensive income	10,727	634	114,122
Minority interests	760	202	8,080
Total net assets	193,250	169,335	2,055,855
Total liabilities and net assets	¥547,973	¥503,496	$5,829,501

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥1,086.68	¥954.81	$11.56

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Net sales	¥845,184	¥831,870	$8,991,321
Cost of sales (Note 3):	703,748	694,997	7,486,686
Gross profit	141,436	136,873	1,504,635
Selling, general and administrative expenses (Note 11)	116,105	117,682	1,235,163
Operating income	25,330	19,191	269,472
Other income (expenses):			
Interest and dividends income	1,332	1,163	14,167
Interest expense	(1,270)	(1,296)	(13,509)
Equity in losses of affiliates	(140)	(314)	(1,492)
Loss on devaluation of investment securities	(235)	(68)	(2,497)
Gain on transition to defined contribution pension plan	19	156	202
Impairment loss	(211)	(3,038)	(2,246)
Gain on sales of investment securities	30	5	320
Loss on natural disaster	—	(71)	—
Other gains (losses), net (Note 10)	1,293	1,955	13,753
Total	818	(1,508)	8,698
Income before income taxes and minority interests	26,148	17,683	278,170
Income taxes (Note 9):			
Current	10,540	9,709	112,127
Deferred	(205)	(1,282)	(2,181)
Total	10,335	8,428	109,946
Income before minority interests	15,813	9,255	168,224
Minority interests	(110)	(16)	(1,165)
Net income	¥ 15,923	¥ 9,271	$ 169,389

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income (Note 21)	¥89.89	¥52.34	$0.96
Cash dividends	17.00	15.00	0.18

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Income before minority interests	¥15,813	¥9,255	$168,224
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	6,398	857	68,063
Deferred gain on hedges	57	37	606
Translation adjustments	2,866	(1,077)	30,486
Share of other comprehensive income of companies accounted for by the equity method	799	(214)	8,505
Total other comprehensive income (Note 22)	10,120	(396)	107,660
Comprehensive income	25,933	8,858	275,884
Total comprehensive income attributable to:			
Shareholders of the parent company	26,016	8,880	276,763
Minority interests	(83)	(21)	(879)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	$ 294,384
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	$ 294,384
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,872	$ 285,867
Changes during the period			
Disposal of treasury stock	—	(0)	—
Total changes during the period	—	(0)	—
Balance at the end of current period	¥ 26,872	¥ 26,872	$ 285,867
Retained earnings			
Balance at the end of previous period	¥114,223	¥107,584	$1,215,142
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(2,267)
Net income	15,923	9,271	169,389
Change in scope of equity method	—	26	—
Total changes during the period	13,265	6,639	141,122
Balance at the end of current period	¥127,489	¥114,223	$1,356,264
Treasury stock at cost			
Balance at the end of previous period	¥ (268)	¥ (267)	$ (2,848)
Changes during the period			
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Total changes during the period	(1)	(1)	(14)
Balance at the end of current period	¥ (269)	¥ (268)	$ (2,862)
Total shareholders' equity			
Balance at the end of previous period	¥168,499	¥161,861	$1,792,545
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(28,267)
Net income	15,923	9,271	169,389
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Change in scope of equity method	—	26	—
Total changes during the period	13,264	6,638	141,108
Balance at the end of current period	¥181,763	¥168,499	$1,933,653

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 5,734	¥ 4,876	$ 60,996
Changes during the period			
Net changes in items other than shareholders' equity	6,399	857	68,070
Total changes during the period	6,399	857	68,070
Balance at the end of current period	¥ 12,132	¥ 5,734	$ 129,066
Deferred gain on hedges			
Balance at the end of previous period	¥ 192	¥ 154	$ 2,037
Changes during the period			
Net changes in items other than shareholders' equity	57	37	611
Total changes during the period	57	37	611
Balance at the end of current period	¥ 249	¥ 192	$ 2,648
Translation adjustments			
Balance at the end of previous period	¥ (5,291)	¥ (4,005)	$ (56,286)
Changes during the period			
Net changes in items other than shareholders' equity	3,637	(1,286)	38,694
Total changes during the period	3,637	(1,286)	38,694
Balance at the end of current period	¥ (1,654)	¥ (5,291)	$ (17,592)
Minority interests			
Balance at the end of previous period	¥ 202	¥ 224	$ 2,146
Changes during the period			
Net changes in items other than shareholders' equity	558	(22)	5,934
Total changes during the period	558	(22)	5,934
Balance at the end of current period	¥ 760	¥ 202	$ 8,080
Total net assets			
Balance at the end of previous period	¥169,335	¥163,110	$1,801,438
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(28,267)
Net income	15,923	9,271	169,389
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Change in scope of equity method	—	26	—
Net changes in items other than shareholders' equity	10,651	(413)	113,309
Total changes during the period	23,915	6,225	254,417
Balance at the end of current period	¥193,250	¥169,335	$2,055,855

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,148	¥17,683	$278,170
Adjustments —			
Depreciation and amortization	8,978	8,469	95,507
Impairment loss	211	3,038	2,246
Amortization of goodwill	267	211	2,839
Provision for (reversal of) doubtful accounts	(1,074)	69	(11,427)
Provision for (reversal of) employees' retirement benefits, less payments	(348)	3,892	(3,707)
Interest and dividends income	(1,332)	(1,163)	(14,167)
Interest expense	1,270	1,296	13,509
Equity in losses of affiliates	140	314	1,492
Losses on devaluation of marketable securities and investment securities	235	68	2,497
Losses (gains) on sales of marketable securities and investment securities, net	(30)	94	(320)
Losses (gains) on disposal of fixed assets, net	37	(84)	397
Loss on natural disaster	—	(485)	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	573	(6,257)	6,099
Inventories	10,401	860	110,652
Other current assets	(4,920)	1,622	(52,341)
Notes and accounts payable, trade	11,451	6,073	121,817
Advances received from customers	4,642	794	49,382
Other current liabilities	(484)	1,407	(5,150)
Other	453	(516)	4,816
Total	56,617	37,384	602,311
Interest and dividends income received	1,403	1,760	14,925
Interest paid	(1,316)	(1,347)	(14,002)
Income taxes paid, net	(10,794)	(10,925)	(114,829)
Net cash provided by operating activities	45,910	26,873	488,405
Cash flows from investment activities:			
Payments into time deposits	(74,356)	(34,021)	(791,019)
Proceeds from withdrawal of time deposits	56,021	18,028	595,963
Decrease (increase) in short-term loans receivable	(2,758)	(3,839)	(29,342)
Payments for purchases of fixed assets	(6,692)	(10,454)	(71,193)
Proceeds from sales of fixed assets	2,549	2,578	27,122
Payments for purchases of intangible assets	(2,525)	(2,788)	(26,864)
Payments for purchases of investment securities	(1,047)	(716)	(11,136)
Proceeds from sales of investment securities	86	10	917
Payments for additional acquisition of stock of consolidated subsidiaries	—	(1)	—
Payments for purchase of stock of subsidiary newly consolidated	—	(1,984)	—
Payments for long-term loans receivable	(24)	(260)	(253)
Repayments of long-term loans receivable	706	644	7,513
Other	(623)	(101)	(6,626)
Net cash used in investment activities	(28,662)	(32,903)	(304,918)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(379)	3,280	(4,031)
Payment of lease obligation	(1,922)	(1,746)	(20,444)
Proceeds from long-term debt	5,630	3,224	59,894
Repayments of long-term debt	(6,715)	(7,721)	(71,436)
Dividends paid	(2,657)	(2,657)	(28,267)
Other	738	(1)	7,847
Net cash provided by financing activities	(5,305)	(5,622)	(56,437)
Effect of exchange rate changes on cash and cash equivalents	(124)	(90)	(1,318)
Net increase (decrease) in cash and cash equivalents	11,819	(11,742)	125,732
Cash and cash equivalents at the beginning of the year	63,839	75,582	679,141
Cash and cash equivalents at the end of the year (Note 12)	¥75,658	¥63,839	$804,873

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

1. Nature of Operations

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

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 for the year ended March 31, 2009 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, 2013, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 48 and 22 (47 and 23 in 2012), respectively.

Included in the scope of consolidation from the reporting fiscal year under review are Sumitomo Forestry (Shanghai) Ltd., Sumitomo Forestry (Vietnam) Co., Ltd. and SUMIRIN HONG KONG LIMITED., which the Company has newly established during the reporting fiscal year.

On the other hand, excluded from the scope of consolidation from the reporting fiscal year under review are (i) Sumirin Life Assist Co., Ltd., which underwent merger with the Company as a surviving company and was dissolved due to the merger and (ii) Northern Tech Co., Ltd., which underwent merger with Nihei Co., Ltd. as a surviving company and was dissolved due to the merger.

Certain subsidiaries and affiliates have fiscal years ending on the day other than March 31 and necessary adjustments for significant transactions, if any, are made on consolidation.

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, with exceptions that are not material, 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) Provision for loss on natural disaster

A provision for loss on natural disaster is provided for possible expenses to be incurred for the restoration of assets damaged by the Great East Japan Earthquake.

(f) 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.

(g) 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.

(h) 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, 2013, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥1,711 million (US$18,204 thousand).

(i) Accrued employees' retirement benefits

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

Unrecognized actuarial gains (losses) and unrecognized prior service cost are amortized in the fiscal year in which they arise.

(j) Accrued retirement benefits to directors and corporate auditors

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

The balance of these reserves at March 31, 2013, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥85 million (US$907 thousand).

(k) Reserve for restructuring costs

The allowance for restructuring costs is stated at the estimated losses on restructuring of discontinued operation and on readjustment of town lots of land at the end of the fiscal year.

The balance of these reserves at March 31, 2013, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥1,435 million (US$15,266 thousand).

(l) 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.

(m) 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.

(n) Inventories

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

Developed land and housing for sale and land and housing projects in progress are stated at cost, which is determined by the specific identification method.

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

The company recognized ¥742 million ($7,889 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2013.

(o) 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. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

(p) Intangible assets

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

(q) 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 earnings. 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.

(r) Hedge accounting

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

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting procedure is used for interest rate swaps as they satisfy the requirements for a special accounting procedure.

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, 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 a special accounting procedure is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(s) 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.

(t) 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.

(u) 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 in the completed-contract-method.

(v) 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.

(w) Consumption taxes

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

(x) 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.

(y) 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.

(z) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2012 have been reclassified to conform to presentation in 2013.

(aa) Accounting Change

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, other than certain buildings, to reflect the methods prescribed in the amended Corporation Tax Law. The previously applied 250% declining-balance method was changed to the 200% declining-balance method. The effect of the change was not significant.

(ab) Standards issued but not yet effective

On May 17, 2012, the ASBJ issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

i) Treatment in the balance sheet—Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

ii) Treatment in the statement of income and the statement of comprehensive income—Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(ac) Provision for loss on liquidation of subsidiaries and affiliates

A provision for loss on liquidation of subsidiaries and affiliates is provided for the possible losses incurred as a result of transfer of the Company’s share in subsidiaries and affiliates.

The balance of the provision at March 31, 2013, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥344 million (US$3,660 thousand).

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 ¥94 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2013. The approximate rate of exchange prevailing at May 31, 2013 was ¥100 = US$1. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. Securities

The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,601	¥18,066	¥(263)	¥43,404
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,454	72	—	1,525
Other	¥11,000	¥ —	¥ —	¥11,000

	Millions of yen			
	2012			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,866	¥9,792	¥(1,299)	¥34,360
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,257	33	(0)	1,290
Other	¥15,000	¥ —	¥ —	¥15,000

	Thousands of U.S. dollars			
	2013			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$272,352	$192,193	$(2,799)	$461,746
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	15,464	762	—	16,226
Other	$117,021	$ —	$ —	$117,021

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 statement of income for the year ended March 31, 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds	¥69	¥—	$733
Gross gains	18	—	195
Gross losses	—	—	—

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

6. Timberland

The investment in timberland at March 31, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Standing timber:			
Mature timber	¥11,587	¥11,032	$123,264
Growing timber	286	204	3,039
	11,872	11,236	126,303
Land	769	732	8,183
	¥12,642	¥11,967	$134,486

The timberland accounts at March 31, 2013 and 2012 were reduced by ¥242 million (US$2,576 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, 2013 and 2012 generally represented short-term borrowings which bore interest of 1.77% and 2.33% per annum, respectively. Long-term debt at March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans, principally from banks and insurance companies, due 2013 to 2035 with interest of 1.39%:			
Secured			
Loans from banks or other	¥ 461	¥ 538	$ 4,907
Unsecured			
Bonds issued	15,000	15,000	159,574
Loans from banks or other	34,299	34,440	364,882
Lease obligation	4,045	3,878	43,034
	53,805	53,856	572,397
Portion due within one year			
Loans from banks or other	10,571	6,693	112,458
Lease obligation	1,067	1,217	11,356
	11,638	7,910	123,814
	¥42,167	¥45,946	$448,583

The following assets were pledged to secure bank loans and long-term debt at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Receivables — Notes and accounts, trade	¥ 456	¥ 389	$ 4,848
Finished goods, logs and lumber	1,659	1,450	17,650
Land	15	14	165
Buildings and structures	459	494	4,882
Machinery and equipment	1,020	994	10,854
Investment securities	68	—	718
	¥3,677	¥3,341	$39,117

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2013 and 2012 were ¥11 million (US$117 thousand) and ¥10 million, investment securities as security for deferred payment of customs duties at March 31, 2013 and 2012 were ¥11,371 million (US$120,969 thousand) and ¥9,302 million, and investment securities as deposit for housing warranty were ¥1,454 million (US$15,464 thousand) and ¥1,252 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2013 were as follows:

	Bonds issued		Long-term debt		Lease obligation	
Years ending March 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2013	¥ —	$ —	¥10,571	$112,458	¥1,067	$11,356
2014	10,000	106,383	6,105	64,944	1,468	15,618
2015	—	—	6,996	74,428	996	10,591
2016	5,000	53,191	1,456	15,490	396	4,211
2017	—	—	2,424	25,793	92	975
Thereafter	—	—	7,207	76,675	27	283
	¥15,000	$159,574	¥34,760	$369,788	¥4,045	$43,034

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2013 and 2012 consisted of the following:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	2013	2013
Osaka City, Osaka Prefecture	2 buildings of rental condominiums	Buildings and structures	¥104	$1,111
		Land	35	377
		Total	140	1,488
Saijo City, Ehime Prefecture	Warehouse	Buildings and structures	8	84
		Machinery and equipment	1	8
		Land	17	176
		Total	25	268
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	46	490
		Total	46	490
			¥211	$2,246

			Millions of yen
Location	Major use	Asset category	2012
Fuxin, Liaoning, China	Plywood manufacturing facility	Buildings and structures	¥ 471
		Machinery and equipment	201
		Other	402
		Total	1,073
Wangaratta, Victoria, Australia	Mid-density fiber board manufacturing facility	Machinery and equipment	1,345
		Other	54
		Total	1,399
Bellevue, Washington, U.S.A.	Assets for residential housing sales business	Goodwill	53
		Other intangible assets	499
		Other	14
		Total	566
			¥3,038

9. 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 fiscal 2013 and 2012 were 38.0% and 40.0%, respectively.

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

	2013	2012
Statutory tax rate	—%	40.0%
Non-deductible expense for purposes	—	1.8
Per capita portion of inhabitant tax	—	1.7
Amortization of goodwill	—	0.4
Valuation allowance	—	2.7
Equity in losses of affiliates	—	0.7
Taxes on undistributed earnings of overseas subsidiaries	—	0.1
Effect of changes in corporate tax rates	—	0.2
Other	—	0.0
Effective tax rate	—%	47.7%

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for doubtful accounts	¥ 570	¥ 728	$ 6,062
Accrued employees' bonuses	3,564	3,376	37,913
Accrued legal welfare expense on employees' bonuses	465	440	4,945
Accrued employees' retirement benefits	3,413	3,515	36,306
Enterprise taxes	495	457	5,271
Payable for transition of defined-contribution pension	—	567	—
Warranty reserve for completed construction	685	708	7,287
Devaluation of real estate for sale	677	536	7,205
Devaluation of financial instruments	1,881	1,958	20,009
Devaluation of property	1,743	1,765	18,546
Provision for loss on business liquidation	511	511	5,441
Tax loss carryforwards	2,906	3,117	30,910
Impairment loss	1,201	1,265	12,776
Unrealized profit on fixed assets	553	672	5,881
Other	5,381	3,643	57,249
Gross deferred tax assets	24,045	23,259	255,801
Valuation allowance	(10,567)	(10,584)	(112,415)
Total deferred tax assets	13,478	12,675	143,386
Deferred tax liabilities:			
Deferred gains on sales of property	(799)	(799)	(8,505)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,417)	(15,075)
Unrealized gain on available-for-sale securities	(5,470)	(2,557)	(58,192)
Land revaluation differences	(1,157)	(1,157)	(12,311)
Taxes on undistributed earnings of overseas subsidiaries	(2,430)	(1,885)	(25,848)
Other	(2,982)	(2,953)	(31,726)
Gross deferred tax liabilities	(14,256)	(10,770)	(151,657)
Net deferred tax assets (liabilities)	¥ (778)	¥ 1,906	$ (8,271)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2013 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets — Deferred tax assets	¥ 8,077	¥7,971	$ 85,929
Investment and other assets — Deferred tax assets	1,343	1,251	14,290
Current liabilities — Other	(1)	—	(5)
Long-term liabilities — Deferred tax liabilities	(10,198)	(7,316)	(108,485)
Net deferred tax assets (liabilities)	¥ (778)	¥1,906	$ (8,271)

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain on foreign exchange	¥ 941	¥ 777	$10,009
Loss on foreign exchange	—	—	—
Gain on sales of property, plant and equipment	88	295	941
Loss on disposal of property, plant and equipment	(98)	(211)	(1,047)
Provision for loss on liquidation of subsidiaries and affiliates	(344)	—	(3,660)
Other, net	706	1,094	7,510
	¥1,293	¥1,955	$13,753

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥1,352 million (US$14,382 thousand) and ¥1,261 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥56,155	¥64,870	$597,398
Short-term investments	11,000	15,000	117,021
Cash equivalents included in short-term loans receivable	28,598	—	304,233
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(20,095)	(16,030)	(213,779)
Cash and cash equivalents	¥75,658	¥63,839	$804,873

The Company initially consolidated the accounts of a company for the year ended March 31, 2012. The assets and liabilities acquired and the relationship between acquisition cost and net cash disbursements for the year ended March 31, 2012 are summarized as follows:

	Millions of yen
	2012
Current assets	¥1,666
Non-current assets	1,689
Goodwill	975
Current liabilities	(939)
Long-term liabilities	(290)
Acquisition cost	3,101
Cash and cash equivalents	(1,117)
Net disbursement of acquisition	¥1,984

13. Shareholders' Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code. The Law provides that an amount equivalent to 10% of cash dividends must be appropriate 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, 2013 and 2012, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US$30,395 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.

14. 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 financial statements.

15. Contingent Liabilities

Contingent liabilities as at March 31, 2013 and 2012, for loans guaranteed amounted to ¥31,199 million (US$331,900 thousand) and ¥25,178 million.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Guarantee on loans from financial institutions			
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,980	¥ 2,212	$ 21,066
Cascadia Resort Communities LLC	43	39	461
Guarantees of housing loans to customers	29,023	22,763	308,757
Other	1	1	10
Guarantee on rent payment			
Sumikyo Co., Ltd.	151	163	1,606
Total	¥31,199	¥25,178	$331,900

16. 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 in order to raise funds. Further the Companies enter into derivative contracts as need in relation to normal foreign currency-denominated transactions, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. 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. Uses of loans are mainly 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. 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 payment 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 customer at least once a year.

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

With respect to short-term investments and investment securities, the Companies regularly monitor prices and issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking 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 report 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 instrument

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

	Millions of yen		
	2013		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 56,155	¥ 56,155	¥—
Receivables-notes and accounts, trade	121,053	121,053	—
Marketable securities and investment securities			
Held-to-maturity	1,454	1,525	72
Available-for-sale	54,404	54,404	—
Receivables-loans and other	84,787	84,787	—
Total	¥317,853	¥317,924	¥72
Payables-notes and accounts, trade	¥169,623	¥169,623	¥—
Total	¥169,623	¥169,623	¥—
Derivatives*			
Hedge accounting not applied	¥ 315	¥ 315	¥—
Hedge accounting applied	404	404	—
Total	¥ 719	¥ 719	¥—

	Thousands of U.S. dollars		
	2013		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	$ 597,398	$ 597,398	$ —
Receivables-notes and accounts, trade	1,287,798	1,287,798	—
Marketable securities and investment securities			
Held-to-maturity	15,465	16,226	761
Available-for-sale	578,767	578,767	—
Receivables-loans and other	901,986	901,986	—
Total	$3,381,414	$3,382,175	$761
Payables-notes and accounts, trade	$1,804,505	$1,804,505	$ —
Total	$1,804,505	$1,804,505	$ —
Derivatives*			
Hedge accounting not applied	$ 3,349	$ 3,349	$ —
Hedge accounting applied	4,295	4,295	—
Total	$ 7,644	$ 7,644	$ —

* Net receivables / payables arising from derivatives are shown. Items that are net payables are shown in parenthesis.

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, receivable-notes and accounts, trade, receivable-loans and other)

Because these are settled in short terms, 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 the financial institution.

(2) Liabilities

(Payables-notes and accounts, trade)

Because these are settled in short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(3) Derivative transactions

See note 17.

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities	¥ 1,380	¥1,357	$ 14,681
Preferred stock	3,000	3,000	31,915
Investment in affiliates	10,350	8,513	110,111

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

	Millions of yen			
	2013			
	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	¥ 55,555	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	121,053	—	—	—
Marketable securities and investment securities				
Government bonds	—	111	1,343	—
Other	11,000	—	—	—
Receivables-loans and other	84,787	—	—	—
Total	¥272,395	¥111	¥1,343	¥—

	Thousands of U.S. dollars			
	2013			
	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	$ 591,011	$ —	$ —	$—
Receivables-notes and accounts, trade	1,287,797	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,176	14,289	—
Other	117,021	—	—	—
Receivables-loans and other	901,986	—	—	—
Total	$2,897,815	$1,176	$14,289	$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2013

	Millions of yen			
	2013			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,553	¥244	¥306	¥306
Buy (NZ dollar)	2,230	—	9	9
Buy (U.S. dollar)	45	—	(0)	(0)
Total	¥3,828	¥244	¥315	¥315

	Thousands of U.S. dollars			
	2013			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	$16,516	$2,591	$3,254	$3,254
Buy (NZ dollar)	23,728	—	95	95
Buy (U.S. dollar)	480	—	(0)	(0)
Total	$40,724	$2,591	$3,349	$3,349

Derivative transactions to which hedge accounting is applied at March 31, 2013

		Millions of yen		
		2013		
	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	¥ 3,501	¥ —	¥ 34
Sell (Euro)		2,302	—	44
Sell (Yen)		38	—	2
Buy (U.S. dollar)	Accounts amount payable	10,317	—	152
Buy (Euro)		7,138	—	171
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	46	—	*
Buy (U.S. dollar)	Accounts amount payable	348	—	*
Buy (Euro)		114	—	*
Total		¥23,804	¥ —	¥404
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	4,400	(92)
Total		¥11,000	¥4,400	¥ (92)

	Hedged item	Thousands of U.S. dollars 2013 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	$ 37,243	$ —	$ 367
Sell (Euro)		24,488	—	471
Sell (Yen)		399	—	19
Buy (U.S. dollar)	Accounts amount payable	109,760	—	1,621
Buy (Euro)		75,936	—	1,817
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	487	—	*
Buy (U.S. dollar)	Accounts amount payable	3,707	—	*
Buy (Euro)		1,215	—	*
Total		$253,235	$ —	$4,295
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	117,021	46,809	(981)
Total		$117,021	$46,809	$ (981)

* 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 payable, accounts receivable or long-term bank loans, the fair values of these derivatives are included in those of hedge items.

Derivative transactions to which hedge accounting is not applied at March 31, 2012

	Millions of yen 2012 Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥4,334	¥1,048	¥49	¥49
Sell (U.S. dollar)	471	—	14	14
Sell (Other)	236	—	(0)	(0)
Buy (NZ dollar)	832	—	(13)	(13)
Buy (Euro)	7	—	(0)	(0)
Total	¥5,879	¥1,048	¥50	¥50

Derivative transactions to which hedge accounting is applied at March 31, 2012

	Hedged item	Millions of yen 2012 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	¥ 4,757	¥ —	¥ (3)
Sell (Euro)		1,404	—	(23)
Buy (U.S. dollar)	Accounts amount payable	6,687	—	154
Buy (Euro)		3,802	—	183
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	265	—	*
Total		¥16,915	¥ —	¥311
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	6,600	*
Total		¥11,000	¥6,600	

The market price at the end of the fiscal year is based on the forward foreign exchange rate then prevailing in the market. Items for which hedge accounting is applied are excluded from the above table disclosure.

18. Employees' Retirement Benefits and Pension Plans

The Company and some of its consolidated subsidiaries offer their employees both a lump-sum benefit at retirement and a non-contributory funded defined-benefit pension plan. A certain domestic subsidiary uses Smaller Enterprise Retirement Allowance Mutual Aid Plan. Others offer a lump-sum benefit at retirement only.

These plans are open to employees who meet set conditions, but substantially all employees are eligible.

Retirement benefits are calculated based on the employee's basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt a defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

The liability for employees' retirement benefits at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(55,782)	¥(52,598)	$(593,426)
Fair value of plan assets	46,103	42,565	490,456
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (9,679)	¥(10,033)	$(102,970)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ 41	¥ —	$ 435
Accrued employees' retirement benefits	(9,720)	(10,033)	(103,405)
	¥ (9,679)	¥(10,033)	$(102,970)

The components of net periodic benefit cost for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥2,795	¥2,615	$29,729
Interest cost	926	965	9,850
Expected return on plan assets	(1,098)	(1,474)	(11,680)
Recognized actuarial loss	(352)	4,916	(3,742)
Amortization of prior service cost	—	49	—
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥2,271	¥7,072	$24,157
Gain on transition to defined-contribution pension plan	(19)	(156)	(202)
Gain on abolishment of retirement benefit plan	—	—	—
Other	703	687	7,484
Total periodic benefit cost	¥2,955	¥7,603	$31,439

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

Assumptions used for the years ended March 31, 2013 and 2012 were set forth as follows:

	2013	2012
Discount rate	1.6%	1.8%
Expected rate of return on plan assets	2.6%	3.6%
Recognition period of actuarial gain / loss	1 year	1 year

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as apartment houses in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2013 and 2012 were ¥615 million (US$6,538 thousand) and ¥904 million. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties are as follows:

Millions of yen				Thousands of U.S. dollars	
		Carrying amount	Fair value	Carrying amount	Fair value
2012	Increase / (Decrease)	2013	2013	2013	2013
¥12,166	¥(2,858)	¥9,308	¥9,026	$99,017	$96,020

20. 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 the following three segments based on division and identified by products, services and geographical areas:

Timber and Building Materials: manufacturing or purchasing and sale of timber and building materials

Housing: construction and renovation of houses, house exteriors, gardening, planting, sale of interiors, sale and brokerage of real estate

Overseas: manufacturing and sale of timber and building materials, construction of houses, forestation overseas

Other: leasing, insurance agent business, management of residential care facilities for the elderly and other

The tables below present sales, income or loss, assets and other items by reportable segment.

	Millions of yen							
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥381,161	¥430,429	¥26,067	¥837,657	¥ 6,643	¥844,299	¥ 885	¥845,184
Intersegment transfers	20,105	345	12,590	33,041	8,763	41,804	(41,804)	—
Total	401,266	430,774	38,657	870,697	15,406	886,103	(40,919)	845,184
Segment income (loss)	4,704	26,227	(1,840)	29,090	754	29,845	(2,863)	26,981
Segment assets	157,122	144,978	65,662	367,761	18,252	386,013	161,960	547,973
Other items								
Depreciation and amortization	¥ 772	¥ 4,123	¥ 2,264	¥ 7,160	¥ 857	¥ 8,018	¥ 960	¥ 8,978
Amortization of goodwill	(11)	8	270	267	—	267	—	267
Interest income	60	53	184	297	0	298	87	385
Interest expense	649	808	985	2,442	88	2,529	(1,259)	1,270
Equity in earnings of affiliates	52	0	(193)	(141)	—	(141)	0	(140)
Investments in affiliates	335	4	9,373	9,712	—	9,712	(10)	9,701
Increase in tangible and intangible fixed assets	¥ 1,099	¥ 5,548	¥ 2,018	¥ 8,665	¥ 1,140	¥ 9,805	¥ 486	¥ 10,291

	Millions of yen							
Year ended March 31, 2012	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥386,229	¥414,867	¥23,834	¥824,930	¥ 6,166	¥831,095	¥ 774	¥831,870
Intersegment transfers	19,121	231	11,138	30,490	7,884	38,373	(38,373)	—
Total	405,350	415,098	34,971	855,419	14,049	869,469	(37,599)	831,870
Segment income (loss)	4,781	25,800	(2,938)	27,642	728	28,370	(7,655)	20,714
Segment assets	157,929	147,361	56,292	361,583	17,123	378,706	124,790	503,496
Other items								
Depreciation and amortization	¥ 918	¥ 3,731	¥ 2,189	¥ 6,837	¥ 943	¥ 7,781	¥ 688	¥ 8,469
Amortization of goodwill	(11)	53	169	211	—	211	—	211
Interest income	75	54	78	207	1	208	61	269
Interest expense	700	1,056	962	2,717	22	2,739	(1,443)	1,296
Equity in earnings of affiliates	177	0	(492)	(315)	—	(315)	0	(314)
Investments in affiliates	267	4	8,253	8,523	—	8,523	(11)	8,513
Increase in tangible and intangible fixed assets	¥ 710	¥ 5,073	¥ 6,618	¥ 12,401	¥ 1,079	¥ 13,481	¥ 469	¥ 13,950

Year ended March 31, 2013	Thousands of U.S. dollars							
	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	$4,054,903	$4,579,030	$277,307	$8,911,240	$ 70,667	$8,981,907	$ 9,414	$8,991,321
Intersegment transfers	213,887	3,673	133,938	351,498	93,226	444,724	(444,724)	—
Total	4,268,790	4,582,703	411,245	9,262,738	163,893	9,426,631	(435,310)	8,991,321
Segment income (loss)	50,039	279,008	(19,576)	309,471	8,026	317,497	(30,462)	287,035
Segment assets	1,671,507	1,542,316	698,527	3,912,350	194,172	4,106,522	1,722,979	5,829,501
Other items								
Depreciation and amortization	$ 8,216	$ 43,865	$ 24,090	$ 76,171	$ 9,122	$ 85,293	$ 10,214	$ 95,507
Amortization of goodwill	(117)	83	2,873	2,839	—	2,839	—	2,839
Interest income	638	564	1,963	3,165	4	3,169	925	4,094
Interest expense	6,899	8,595	10,480	25,974	932	26,906	(13,397)	13,509
Equity in earnings of affiliates	557	0	(2,053)	(1,496)	—	(1,496)	4	(1,492)
Investments in affiliates	3,560	43	99,712	103,315	—	103,315	(112)	103,203
Increase in tangible and intangible fixed assets	$ 11,697	$ 59,020	$ 21,467	$ 92,184	$ 12,124	$ 104,308	$ 5,171	$ 109,479

(Related information)

(1) Products and services information

Year ended March 31, 2013	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥403,548	¥436,663	¥4,972	¥845,184

Year ended March 31, 2012	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥407,051	¥420,052	¥4,767	¥831,870

Year ended March 31, 2013	Thousands of U.S. dollars			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	$4,293,069	$4,645,355	$52,897	$8,991,321

(2) Geographic area information

Sales information by geographic area has been omitted since sales and contract revenues from unaffiliated customers in the Japan area accounted for more than 90% of consolidated net sales.

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

Year ended March 31, 2013	Millions of yen				
	Japan	Oceania	Asia	Other	Total
	¥57,769	¥16,169	¥10,879	¥1,082	¥85,900

Year ended March 31, 2012	Millions of yen				
	Japan	Oceania	Asia	Other	Total
	¥60,832	¥14,079	¥9,667	¥1,063	¥85,641

Year ended March 31, 2013	Thousands of U.S. dollars				
	Japan	Oceania	Asia	Other	Total
	$614,560	$172,014	$115,738	$11,514	$913,826

(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)

	Millions of yen					
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	**¥25**	**¥186**	**¥—**	**¥—**	**¥—**	**¥211**

	Millions of yen					
Year ended March 31, 2012	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥—	¥—	¥3,038	¥—	¥—	¥3,038

	Thousands of U.S. dollars					
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	**$268**	**$1,978**	**$—**	**$—**	**$—**	**$2,246**

(Amortization and balance of goodwill)

	Millions of yen					
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	**¥(11)**	**¥ 8**	**¥270**	**¥—**	**¥—**	**¥267**
Balance of goodwill	**(0)**	**21**	**716**	**—**	**—**	**737**

	Millions of yen					
Year ended March 31, 2012	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥(11)	¥53	¥169	¥—	¥—	¥211
Balance of goodwill	(11)	29	907	—	—	924

	Thousands of U.S. dollars					
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	**$(117)**	**$ 83**	**$2,873**	**$—**	**$—**	**$2,839**
Balance of goodwill	**(2)**	**226**	**7,611**	**—**	**—**	**7,835**

21. Net Income per Share

The computation of net income per share for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Numerator for net income per share:			
Net income	**¥15,923**	¥9,271	**$169,389**
Income not available to common stockholders	**—**	—	**—**
Income available to common stockholders	**15,923**	9,271	**169,389**
Denominator for net income per share:			
Weighted average number of shares issued	**177,137,337**	177,138,651	

The diluted net income per share for the years ended March 31, 2013 and 2012 were not presented because there were no shares with dilutive effect.

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the year ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities			
Amount incurred during the year	¥ 9,093	¥ 614	$ 96,734
Reclassification adjustments for gains and losses included in net income	216	—	2,301
Amount before tax effect	9,309	614	99,035
Tax effect	(2,911)	243	(30,972)
Unrealized gain on available-for-sale securities	6,398	857	68,063
Deferred gain on hedges			
Amount incurred during the year	90	(2)	959
Reclassification adjustments for gains and losses included in net income	2	22	27
Amount before tax effect	93	20	986
Tax effect	(36)	17	(380)
Deferred gains on hedges	57	37	606
Translation adjustments			
Amount incurred during the year	2,866	(1,077)	30,486
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	2,866	(1,077)	30,486
Tax effect	—	—	—
Translation adjustments	2,866	(1,077)	30,486
Share of other comprehensive income of affiliated companies accounted for by the equity method			
Amount incurred during the year	799	(257)	8,505
Reclassification adjustments for gains and losses included in net income	—	42	—
Share of other comprehensive income of affiliated companies accounted for by the equity method	799	(214)	8,505
Total other comprehensive income	¥10,120	¥ (396)	$107,660

23. 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 0.20% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

The balance of these obligations at March 31, 2013 and 2012 are included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheet.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Balance at beginning of the year	¥1,380	¥1,395	$14,679
Liability incurred for assets acquired	95	76	1,009
Accretion expense	11	12	118
Liabilities settled	(104)	(104)	(1,106)
Balance at end of the year	¥1,382	¥1,380	$14,700

24. Related Party Transactions

Not applicable in the year ended March 31, 2013.

Principal transactions between the Company and its related parties for the years ended March 31, 2012 are summarized as follows:

2012			
Name	Title	Transactions	Millions of yen Amounts
Shigeru Sasabe	Director of the Company	Sales of housing	¥45

Prices for sales of housing were determined based on the same terms as third party transactions.

25. Loss on disaster

Losses related to the March 11, 2011 Great East Japan Earthquake are accounted for under "Loss on natural disaster."

Breakdowns of the main components for the fiscal years ended March 31, 2012 are as follows:

	Millions of yen
	2012
Restoration of damaged assets to their original state	¥ 8
Loss on disappearance and disposal of inventories	21
Inspection charge for houses the company constructed	39
	¥68

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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 sheets as at March 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years 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, 2013 and 2012, and their consolidated financial performance and cash flows for the years 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.

June 14, 2013
Tokyo, Japan

Ernst & Young ShinNihon LLC