Financial Section

Contents

Eleven-Year Summary

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

	Millions of yen			
	2014	2013	2012	2011
Operating Results:				
Net sales	**¥972,968**	¥845,184	¥831,870	¥797,493
Gross profit	**160,162**	141,436	136,873	132,568
Selling, general and administrative expenses	**126,747**	116,105	117,682	118,330
Operating income	**33,415**	25,330	19,191	14,238
Recurring income*[1]	**33,567**	26,981	20,714	14,206
Net income	**22,531**	15,923	9,271	5,175
Financial Position:				
Total assets	**¥645,197**	¥547,973	¥503,496	¥489,417
Working capital*[2]	**120,725**	91,335	94,509	89,665
Interest-bearing debt	**92,975**	69,229	67,923	69,229
Total net assets	**226,078**	193,250	169,335	163,110
Cash Flows:				
Cash flows from operating activities	**¥ 54,057**	¥ 45,910	¥ 26,873	¥ 17,515
Cash flows from investment activities	**(10,476)**	(28,662)	(32,903)	(13,247)
Cash flows from financing activities	**8,511**	(5,305)	(5,622)	372
Cash and cash equivalents at the end of the year	**128,343**	75,658	63,839	75,582
Capital Investment:				
Tangible fixed assets*[3]	**¥ 14,735**	¥ 7,058	¥ 10,970	¥ 11,923
Intangible fixed assets	**2,417**	2,890	2,786	2,434
Others	**252**	343	194	215
Total	**17,404**	10,291	13,950	14,572
Depreciation and amortization	**9,810**	8,978	8,469	8,437
	Yen			
Per Share Data:				
Net income	**¥ 127.20**	¥ 89.89	¥ 52.34	¥ 29.2
Net assets	**1,234.53**	1,086.68	954.8	919.5
Cash dividends	**19.0**	17.0	15.0	15.0
	%			
Financial Ratios:				
Gross profit margin	**16.5**	16.7	16.5	16.6
Operating income margin	**3.4**	3.0	2.3	1.8
Recurring income margin	**3.4**	3.2	2.5	1.8
Return on assets (ROA)*[4]	**5.6**	5.1	4.2	3.0
Return on equity (ROE)*[4]	**11.0**	8.8	5.6	3.2
Equity ratio	**33.9**	35.1	33.6	33.3
Interest-bearing debt ratio*[5]	**29.8**	26.5	28.7	29.8
Current ratio	**137.0**	133.1	137.1	136.8
Interest coverage ratio [times]	**18.8**	14.2	10.8	8.2

*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						
2010	2009	2008	2007	2006	2005	2004
¥723,923	¥823,810	¥861,357	¥911,674	¥791,128	¥723,193	¥673,779
124,269	133,493	135,277	141,117	127,853	125,582	120,778
114,522	126,656	128,041	120,711	112,407	107,116	103,201
9,747	6,837	7,235	20,405	15,446	18,466	17,577
9,465	6,160	7,659	21,259	16,800	18,692	17,074
2,377	1,028	1,115	11,954	10,842	8,014	9,870
¥469,738	¥427,738	¥450,730	¥500,136	¥464,193	¥370,684	¥369,755
88,338	81,700	64,156	76,453	68,037	67,579	66,377
66,786	49,127	25,816	25,739	22,067	15,580	19,929
162,930	156,192	173,089	188,855	175,206	152,500	146,269
¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962
(19,117)	(29,062)	(17,587)	(7,102)	(8,998)	(12,895)	(7,646)
11,546	24,196	(4,262)	665	(14,039)	(7,087)	(735)
71,662	40,730	54,475	50,311	49,628	55,928	69,312
¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040
1,561	2,013	1,694	1,586	1,857	1,673	1,468
395	150	222	420	454	549	883
12,592	26,238	11,494	9,026	10,443	9,237	6,392
8,502	8,477	7,258	6,476	6,403	6,452	6,447
Yen						
¥ 13.4	¥ 5.8	¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8
917.8	880.9	976.0	1,059.2	996.0	866.5	830.5
15.0	15.0	15.0	15.0	13.0	13.0	13.0
%						
17.2	16.2	15.7	15.5	16.2	17.4	17.9
1.3	0.8	0.8	2.2	2.0	2.6	2.6
1.3	0.7	0.9	2.3	2.1	2.6	2.5
2.1	1.4	1.6	4.4	4.0	5.0	4.7
1.5	0.6	0.6	6.6	6.6	5.4	7.2
34.6	36.5	38.4	37.5	37.7	41.1	39.6
29.1	23.9	13.0	12.1	11.2	9.3	12.0
140.3	141.6	127.6	129.3	129.3	137.4	135.7
6.8	4.5	4.5	11.2	10.8	18.6	21.9

*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)

Market Overview

In fiscal 2013, ended March 31, 2014, against a backdrop of a slowly recovering global economy, especially in the United States and Europe, and the effects of economic measures and monetary policies in Japan, the Japanese economy displayed signs of a gentle recovery, including improved corporate profits and an increase in capital expenditures resulting from continued depreciation of the yen and other factors and a recovery in consumer spending resulting from an improved employment and income environment.

With respect to the domestic housing market, housing loan interest rates hovered at low levels, the effects of expanded tax relief for housing loans and other government initiatives designed to promote housing purchases manifested themselves, and there was surge demand ahead of the consumption tax hike. As a result of these and other factors, the number of new housing starts reached 987,000* (an increase of 10.6% year-on-year). Of this number, owner-occupied dwellings were 353,000* (an increase of 11.5% year-on-year). At the same time, a sharp reactive decline in surge demand has become apparent in the second half, leaving a sense of uncertainty for the future.

* Amounts have been rounded down to the nearest thousand units

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales increased 15.1% year-on-year to ¥972,968 million. This was primarily due to a strong performance from the Timber and Building Materials Business and the Custom-Built Detached Housing Business, as well as efforts to expand the Overseas Business and the Renovation and Leasing Housing Business by such means as proactively injecting management resources.

The value of orders received for the custom-built detached housing totaled ¥339,909 million, up to 8.2% compared with the previous fiscal year. This rise was mainly attributable to a 2.8% year-on-year increase in the number of orders received 9,364 houses, a higher installation rate of environmentally sound equipment and an increase in unit prices in line with greater use of our "Big-Frame Construction method."

2 Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 9.2% year on year to ¥126,747 million. There was an increase in personnel expenses, owing to actuarial differences in accounting for retirement benefit of ¥1,020 million, which arose mainly due to a fall in long-term interest rates, but excluding this factor selling, general and administrative expenses increased 8.0% year on year to ¥125,727 million. The increase in selling, general and administrative expenses excluding the impact of the above-mentioned actuarial differences was due mainly to additional equity interest in an equity-method affiliate, which is engaged in the housing business in Australia, was acquired in September 2013 and it was made a consolidated subsidiary, as well as that costs associated with expansion of the Renovation Business increased.

3 Operating Income, Recurring Income

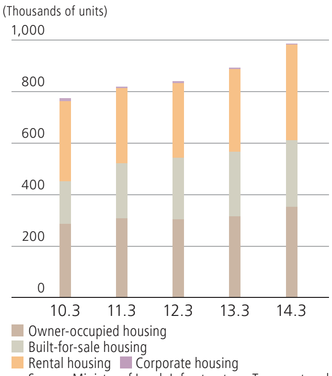
Operating income improved 31.9% year-on-year to ¥33,415 million, and recurring income rose 24.4% to ¥33,567 million. This was attributable to higher sales and gross profit due to an increase in the volume handled and an unit selling prices in the Timber and Building Materials Business, an increase in the number of houses sold and a rise in the price per unit in the Custom-Built Detached Housing Business, and growth in the Renovation Business and housing business overseas, in spite of the year-on-year increase in selling, general and administrative expenses. Excluding the impact of the above-mentioned actuarial differences, operating income amounted to ¥34,435 million, an increase of 37.9% year on year, and recurring income totaled ¥34,586 million, an improvement of 29.9% year-on-year.

4 Net Income

Net income increased 41.5% year-on-year to ¥22,531 million. The main reasons for the significant increase in net income were that additional equity interest in an equity-method affiliate, which is engaged in the housing business in Australia, was acquired and it was made a consolidated subsidiary, resulting in the posting of a marginal gain on step acquisition of ¥2,124 million as an extraordinary gain as well as that income taxes were reduced due to reversal of ¥2,077 million in deferred tax liabilities recorded in previous years resulting from an exemption from withholding tax on dividends payable by a subsidiary in New Zealand which became applicable as the result of amendment to the tax treaty between Japan and New Zealand.

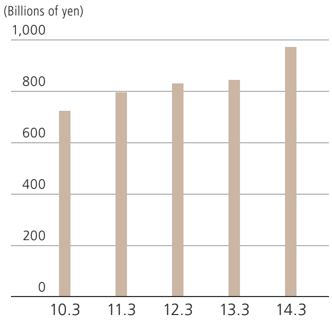
Net income per share came to ¥127.20, an increase of ¥37.31 from the previous fiscal year.

Number of New Housing Starts in Japan

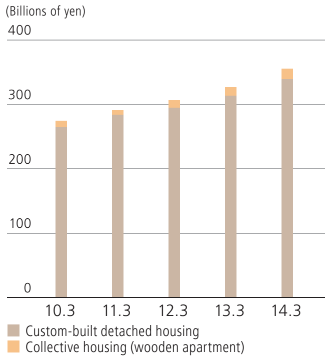


Source: Ministry of Land, Infrastructure, Transport and Tourism

Net Sales



Amount of Orders Received



Segment Results

* The net sales for each segment include intersegment internal sales and transfers. And recurring income figures have been used for the segment income.

1 Timber and Building Materials Business

Net sales of the Timber and Building Materials Business increased 14.3% year-on-year to ¥458,611 million, and recurring income rose 5.2% to ¥4,950 million. We promoted a sales strategy closely linked to local areas and poured efforts into the sale of materials in the renovation market to expand our market share in Japan, while overseas, we worked on expanding our business in the Asian market.

In the domestic timber and building materials distribution business, we focused our efforts on expanding sales of environmentally sound products such as plantation timber and timber from certified forests as well as on seeking to capture demand accompanying an increase in the number of new housing starts and further bolstering links with customers. This resulted in an increase in the volume handled. With regards to the domestic timber distribution business, against a backdrop of increased sales of high quality domestic timber products and depreciation of the yen, we focused our efforts on domestic timber exports to Asian countries. In the timber and building materials distribution business overseas, we worked on expanding sales of our overseas subsidiaries' products focusing on China and Southeast Asia. In the domestic building materials manufacturing business, we launched the "BeRiche" series, which offers a vast variety of products to complement a diverse range of home interior styles, and focused on expanding sales. However, the results were less than favorable due to the impact of a steep rise in the price of raw materials, increased costs accompanying the switch to new products.

2 Housing Business

Sales of the housing business increased 8.0% year-on-year to ¥465,368 million, and recurring income rose 22.8% to ¥32,211 million. The main reasons for this included an increase in the number of houses sold in the Custom-Built Detached Housing Business owing to a surge in demand ahead of the consumption tax rate hike and a rise in the price per unit, as well as growth in the renovation business on the back of strengthened sales capabilities and a wide range of renovation proposals.

Custom-Built Housing Business

In the Custom-Built Detached Housing Business, we engaged in efficiently injecting management resources according to market circumstances in order to respond to the surge demand ahead of the consumption tax hike and subsequent sharp reactive decline and endeavored to increase the rate of installation of environmentally sound equipment, such as solar power systems. We also worked to expand orders received for our "Big-Frame Construction method," which has superior earthquake resistance and offers greater design flexibility.

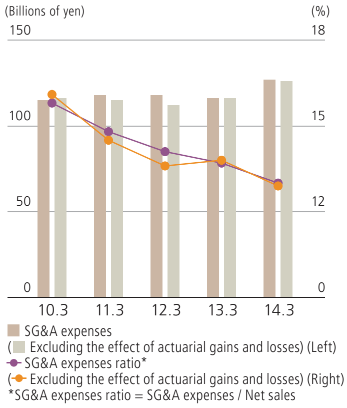
With regard to our sales strategy, we held "Sumai Haku" housing fairs in Yokohama, Osaka and Nagoya where visitors can get a comprehensive, hands-on look at Sumitomo Forestry houses. We also opened a permanent technology housing display center in Tokyo and Osaka, which provides easy-to-understand exhibits on the structural features of our "Big-Frame Construction method" and promoted a next-generation display center strategy based on a new concept, including nationwide expansion of our proto-housing display center, which overflows with our wood design sense. On the product strategy front, we launched "My Select BF-Si" standard home designs that can be personalized via a website to respond to the diverse needs of our customers.

In the Apartment Business, we worked on expanding orders of our detached rental housing called "Forest Maison Houses for rent" and launched "Forest Maison Share house" to expand our lineup of wooden rental housing products.

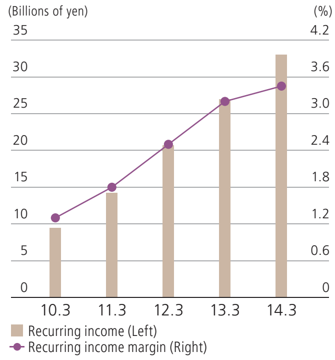
Renovation and Leasing Housing Business

In our Renovation Business, we endeavored to enhance the degree of our renovation product brand "Reforest" and sought to bolster our sales capabilities by increasing our sales force principally in the three major metropolitan areas in order to expand our market share. We also modified our hydraulic damper seismic control systems used in high-rise building for use in wooden housing and developed the "Original Seismic Control Damper Model S." We have a lineup of renovation offerings that includes "Seismic Resistance/Seismic Control Double Construction," with conventional earthquake-resistant construction methods. Moreover, we actively worked on expanding orders by focusing on condominium

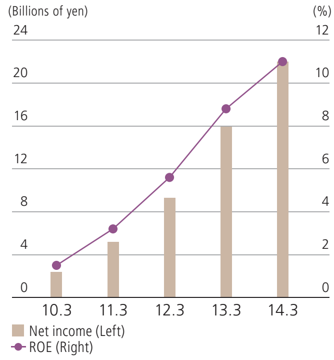
SG&A Expenses and
SG&A Expenses Ratio



Recurring Income and
Recurring Income Margin



Net Income and ROE



renovation offerings as well. As a result, performance in this business was strong.

In our Existing Home Renovation Business (resale of renovated homes), which conducts the renovation and resale of used homes, we worked to strengthen and expand our after-sales service system to maintain a pleasant living environment over a long period of time. We also launched a new brand called "foRestia" and carried out resale activities for high quality condominiums incorporating our Group's technical capabilities.

In our Real Estate Distribution and Management Business, we focused on developing a management organization to address market trends and bolstering earnings power.

Detached Spec Home / MOCCA (timber solutions) Business

In our Detached Spec Home Business, we poured efforts into enhancing our sales capabilities, but performance was sluggish. As for the MOCCA (timber solutions) Business, we endeavored to expand orders by such means as receiving orders for construction of private-pay elderly care facilities and other wooden buildings. One of the orders we received during the fiscal year 2013 was selected for the Wood Building Technology Leadership Business Project promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

3 Overseas Business

Sales in the Overseas Business climbed 97.4% year-on-year to ¥76,320 million and reported a recurring loss of ¥149 million, compared with a recurring loss of ¥1,840 million in the previous fiscal year. We proactively injected management resources to improve profitability and expand the size of our business while at the same time pouring effort into the implementation of measures to improve the bottom line of unprofitable businesses. As a result, sales increased and losses contracted significantly.

In the overseas resources and manufacturing business, our results trended firmly due to increased sales volume in New Zealand directed towards Japan where the number of new housing starts was trending upwards and an increase in plywood exports in Indonesia on top of a drop in the price of raw materials. In Australia, our focus on domestic sales and other efforts resulted in an improvement in our bottom line. In Vietnam, we worked to build a stable particle board production system. In China, we partly transferred our interest in a plywood manufacturing subsidiary that was facing difficult business circumstances to another company and removed it from our consolidated results. We endeavored to promote our business in Indonesia and other countries by such means as expanding the area of our plantations in order to provide a stable supply of environment sound materials.

As for our overseas housing and real estate business, performance was strong in the United States owing to an increase in the number of units sold against a backdrop of a healthy housing market. In Australia, although the number of units sold plateaued, cost-cutting and other efforts resulted in solid performance. Additionally, in order to further grow our overseas housing business, we acquired equity interest in a Texas housing company in the United States and acquired additional equity interest in an equity-method affiliate engaged in the housing business in Australia, making it a consolidated subsidiary. Net sales in our Overseas Business increased substantially as a result of making this affiliate into a consolidated subsidiary.

4 Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates the biomass power generation business, management of private-pay elderly care facilities, the lease business and a wide range of service businesses for residential customers (including non-life insurance agency service) and also manufactures and sells farming and gardening materials and develops IT systems for its Group companies.

Net sales during the fiscal year under review increased 12.2% year on year to ¥17,286 million, and recurring income rose 8.9% to ¥821 million. This was attributable to factors including an increase in the number of new fire insurance policies handled for housing customers and a rise in occupancy rates in the management of private-pay elderly care facilities.

Housing Business

(Years ended March 31)		2011	2012	2013	**2014**
Orders					
Custom-Built Detached Housing	(¥million)	¥284,420	¥295,194	¥314,240	**¥339,909**
	(Units)	8,926	8,962	9,105	**9,364**
Wooden Apartment	(¥million)	¥ 7,343	¥ 11,169	¥ 13,043	**¥ 15,502**
	(Units)	775	986	1,138	**1,140**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥million)	¥ 41,754	¥ 47,792	¥ 53,818	**¥ 61,004**
Sales					
Custom-Built Detached Housing	(¥million)	¥270,903	¥294,081	¥300,936	**¥320,260**
	(Units)	8,721	9,007	8,999	**9,243**
Wooden Apartment	(¥million)	¥ 6,681	¥ 7,899	¥ 9,371	**¥ 13,130**
	(Units)	724	772	858	**1,124**
Detached Spec Homes	(¥million)	¥ 9,567	¥ 9,862	¥ 11,376	**¥ 9,723**
	(Units)	226	225	254	**242**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥million)	¥ 39,325	¥ 45,278	¥ 50,312	**¥ 59,336**

Segment Performance Highlights

(Years ended March 31)	Millions of yen 2013	2014	change	(% of change)
Net Sales	¥845,184	¥972,968	+127,784	+15.1%
Timber and Building Materials Business	401,266	458,611	+ 57,345	+14.3%
Housing Business	430,774	465,368	+ 34,594	+ 8.0%
Overseas Business	38,657	76,320	+ 37,663	+97.4%
Other Businesses	15,406	17,286	+ 1,880	+12.2%
Adjustments	(40,919)	(44,617)	− 3,698	—
Recurring Income	¥ 26,981	¥ 33,567	+ 6,585	+24.4%
Timber and Building Materials Business	4,704	4,950	+ 247	+ 5.2%
Housing Business	26,227	32,211	+ 5,985	+22.8%
Overseas Business	(1,840)	(149)	+ 1,691	—
Other Businesses	754	821	+ 67	+ 8.9%
Adjustments	(2,863)	(4,268)	− 1,405	—

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

Net Sales and Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Millions of yen)

(Years ended March 31)	Net Sales 2013	Net Sales 2014	Recurring Income 2013	Recurring Income 2014
Sumitomo Forestry Crest Co., Ltd.	¥ 36,353	¥ 39,932	¥ 165	¥ (856)

Housing Business

(Years ended March 31)	Net Sales 2013	Net Sales 2014	Recurring Income 2013	Recurring Income 2014
Sumitomo Forestry Residential Co., Ltd.	¥ 19,230	¥ 20,402	¥ 536	¥ 465
Sumitomo Forestry Home Engineering Co., Ltd.	83,778	88,316	769	907
Sumitomo Forestry Home Service Co., Ltd.	5,545	5,873	210	253
Sumitomo Forestry Landscaping Co., Ltd.	23,790	24,315	209	394
Sumitomo Forestry Home Tech Co., Ltd.	53,006	62,189	2,705	4,088

Overseas Business

(Years ended December 31)	Net Sales 2012	Net Sales 2013	Recurring Income 2012	Recurring Income 2013
Overseas Subsidiaries*				
PT. Kutai Timber Indonesia (Indonesia)	¥ 9,579	¥ 11,872	¥ 200	¥ 582
Alpine MDF Industries Pty Ltd. (Australia)	3,894	4,490	(150)	6
Nelson Pine Industries Ltd. (New Zealand)	12,610	14,873	1,407	1,199
Henley Properties Group (Australia)	42,711	52,633	1,487	2,634

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

	US$	AU$	NZ$
FY2012:	79.80	82.65	64.66
FY2013:	97.59	94.32	80.02

Financial Position and Cash Flow

1 Financial Position

At the end of March 2014, total assets were ¥645,197 million, an increase of ¥97,224 million year on year. The increase was attributable, among other things, to an increase in liquid funds on hand resulting from increased revenue and the impact of including an equity-method affiliate engaged in the housing business in Australia in the consolidated results.

Liabilities rose by ¥64,397 million year on year to ¥419,120 million. This was mainly the result of the issuance of convertible bonds and an increase in advances received on uncompleted construction contracts accompanying an increase in the number of units under construction in the Custom-Built Detached Housing Business.

Interest-bearing debt increased by ¥23,746 million year on year to ¥92,975 million along with the ¥20,000 million issuance of the above-mentioned convertible bonds. The interest-bearing debt ratio increased from 26.5% at the end of the previous fiscal year to 29.8%.

Net assets totaled ¥226,078 million, and the equity ratio was 33.9%.

2 Cash Flow

Cash flows from operating activities

Net cash provided by operating activities was ¥54,057 million. In addition to income before income taxes and minority interests of ¥34,629 million and depreciation of ¥9,810 million, this increase also resulted from factors that increased cash, such as the increases in advances received on uncompleted construction contracts and note and accounts payable, which together exceeded such cash-decreasing factors as income taxes paid.

Cash flows from investment activities

Net cash used in investment activities totaled ¥10,476 million. This was due to the use of funds for acquiring equity interest in a North American housing business company and capital expenditures at the biomass power generation business company in Japan, with an increase in cash resulting from withdrawal of time deposits exceeding deposits.

Cash flows from financing activities

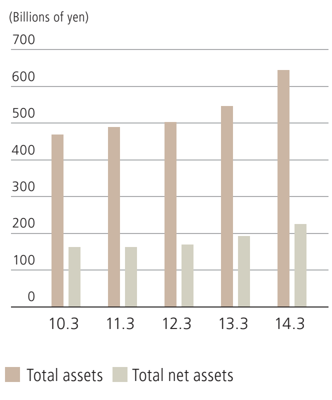
Net cash used in financing activities increased by ¥8,511 million. This was chiefly due to the issuance of ¥20,000 million in convertible bonds while at the same time paying dividends and repaying loans.

As a result of the above, cash and cash equivalents at the end of the fiscal year ended in March , 2014, stood at ¥128,343 million, an increase of ¥52,685 million from the end of the previous fiscal year.

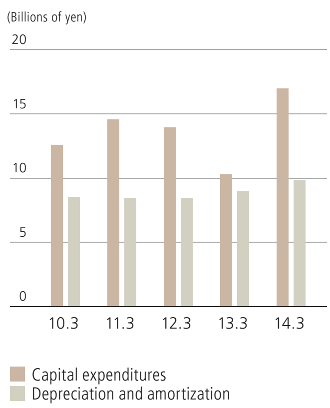
3 Capital Expenditures

Capital expenditures increased by 69.1%, from ¥10,291 million in the previous fiscal year to ¥17,404 million in the fiscal year under review. Investment in tangible fixed assets increased 108.8% year on year to ¥14,735 million, while investment in intangible fixed assets decreased 16.4% year on year to ¥2,417 million. Major investments included ¥4.3 billion for housing showrooms inside and outside Japan, ¥4.1 billion for construction-related expenditures at the Mombetsu biomass power generation plant, ¥3.1 billion for plant equipment in manufacturing businesses inside and outside Japan, and ¥2.8 billion for IT investment.

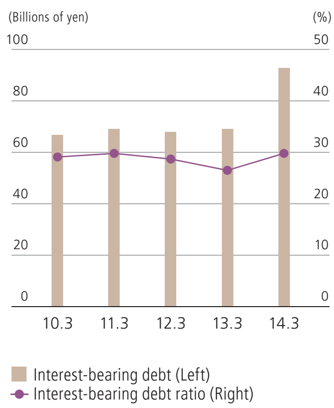
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

1 Housing Market Trends

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

1) Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening 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 falls in land prices may have the potential to impact the Group's operating results and financial position.

4) Tax System and Housing-Related Policy Changes

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

2 Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Registered Architect Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site 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 operating results and financial position.

3 Timber and Building Materials Market Conditions

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

4 Exchange Rate Fluctuations

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

5 Product Quality Assurance

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

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 operating results and financial position.

7 Retirement Benefit Obligations

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

8 Stock Market

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

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 by a natural disaster could influence the Group's operating results and financial position.

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 executive or an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

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 occurrence of major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems that could influence the Group's operating results and financial position.

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 operating 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 operating 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 operating results and financial position could be influenced.

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.

If this were to occur, the Group's business results and financial position could be influenced adversely.

* 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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2014	2013	2014
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 75,694	¥ 56,155	$734,892
Marketable securities (Notes 5, 12, 16)	43,000	11,000	417,476
Receivables —			
Notes and accounts, trade (Notes 7, 16, 17)	132,921	125,933	1,290,498
Loans and other (Notes 7, 16)	87,774	84,870	852,178
Inventories —			
Finished goods, logs and lumber (Note 7)	26,922	22,276	261,382
Developed land and housing for sale (Note 7)	31,514	27,894	305,961
Land and housing projects in progress (Note 7)	35,564	27,057	345,283
Deferred tax assets (Note 9)	8,754	8,077	84,990
Other current assets	5,435	5,506	52,768
Allowance for doubtful accounts	(724)	(1,291)	(7,030)
Total current assets	446,855	367,478	4,338,398
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7, 8)	26,665	23,573	258,888
Buildings and structures (Notes 7, 8)	59,845	51,621	581,022
Machinery, equipment and vehicles (Notes 7, 8)	79,803	68,264	774,782
Timberland (Note 6)	12,442	11,872	120,794
Construction in progress (Note 7)	6,917	1,346	67,155
Leased assets	9,214	8,139	89,459
	194,886	164,815	1,892,100
Less accumulated depreciation	(91,153)	(78,915)	(884,983)
Net property, plant and equipment	103,733	85,900	1,007,117
Intangible assets, net of amortization:			
Goodwill	3,122	737	30,308
Other intangible assets (Note 8)	8,570	8,420	83,204
Total intangible assets	11,692	9,157	113,512
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	65,499	59,588	635,908
Long-term loans and receivables	2,663	3,484	25,856
Deferred tax assets (Note 9)	1,797	1,343	17,450
Asset for retirement benefits (Note 18)	68	—	661
Other assets	14,983	23,243	145,468
Allowance for doubtful accounts	(2,093)	(2,220)	(20,319)
Total investments and other assets	82,917	85,439	805,024
Total assets	¥645,197	¥547,973	$6,264,051

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 4) 2014
Current liabilities:			
Payables —			
Notes and accounts, trade (Notes 16, 17)	¥191,430	¥169,623	$1,858,544
Other	8,824	8,087	85,675
Short-term debt (Note 7)	19,749	15,424	191,738
Current portion of long-term debt (Note 7)	16,685	10,571	161,988
Current portion of lease obligation (Note 7)	1,468	1,067	14,253
Advances received from customers	56,880	44,523	552,237
Accrued income taxes	8,102	5,589	78,659
Accrued employees' bonuses	10,360	9,392	100,580
Accrued directors and corporate auditors' bonuses	120	110	1,165
Other current liabilities (Notes 3, 23)	12,512	11,756	121,476
Total current liabilities	326,130	276,143	3,166,315
Long-term liabilities:			
Bonds issued (Note 7)	5,000	15,000	48,544
Bonds with subscription rights to shares (Note 7)	20,000	—	194,175
Long-term debt (Notes 7, 17)	26,616	24,189	258,404
Long-term lease obligation (Note 7)	3,458	2,978	33,571
Deferred tax liabilities (Note 9)	10,807	10,198	104,918
Accrued employees' retirement benefits (Note 18)	—	9,720	—
Liability for retirement benefits (Note 18)	11,038	—	107,168
Other long-term liabilities (Notes 3, 23)	16,071	16,496	156,028
Total long-term liabilities	92,989	78,580	902,808
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 2014 and 177,410,239 shares in 2013	27,672	27,672	268,661
Capital surplus	26,872	26,872	260,888
Retained earnings	146,654	127,489	1,423,827
Treasury stock: 276,468 shares in 2014 and 273,712 shares in 2013	(272)	(269)	(2,643)
Total shareholders' equity	200,925	181,763	1,950,733
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	14,559	12,132	141,345
Deferred gain on hedges	21	249	202
Translation adjustments	3,284	(1,654)	31,881
Retirement benefits liability adjustments	(112)	—	(1,089)
Total accumulated other comprehensive income	17,751	10,727	172,339
Minority interests	7,401	760	71,856
Total net assets	226,078	193,250	2,194,928
Total liabilities and net assets	¥645,197	¥547,973	$6,264,051

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥1,234.53	¥1,086.68	$11.99

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Net sales	¥972,968	¥845,184	$9,446,292
Cost of sales (Note 3):	812,806	703,748	7,891,323
Gross profit	160,162	141,436	1,554,969
Selling, general and administrative expenses (Note 11)	126,747	116,105	1,230,553
Operating income	33,415	25,330	324,416
Other income (expenses):			
Interest and dividends income	1,520	1,332	14,758
Interest expense	(1,127)	(1,270)	(10,945)
Equity in losses of affiliates	(522)	(140)	(5,066)
Loss on devaluation of investment securities	(193)	(235)	(1,870)
Gain on step acquisitions	2,124	—	20,625
Gain on transition to defined contribution pension plan	—	19	—
Impairment loss (Note 8)	(436)	(211)	(4,228)
Gain on sales of investment securities	31	30	296
Other gains (losses), net (Note 10)	(183)	1,293	(1,780)
Total	1,214	818	11,790
Income before income taxes and minority interests	34,629	26,148	336,206
Income taxes (Note 9):			
Current	13,101	10,540	127,193
Deferred	(1,613)	(205)	(15,658)
Total	11,488	10,335	111,535
Income before minority interests	23,141	15,813	224,671
Minority interests	610	(110)	5,924
Net income	¥ 22,531	¥ 15,923	$ 218,747

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income (Note 21)	¥127.20	¥89.89	$1.23
Cash dividends	19.00	17.00	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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Income before minority interests	¥23,141	¥15,813	$224,671
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	2,425	6,398	23,548
Deferred gain on hedges	(228)	57	(2,215)
Translation adjustments	4,940	2,866	47,962
Share of other comprehensive income of companies accounted for by the equity method	106	799	1,033
Total other comprehensive income (Note 22)	7,244	10,120	70,328
Comprehensive income	30,385	25,933	294,999
Total comprehensive income attributable to:			
Shareholders of the parent company	29,667	26,016	288,026
Minority interests	718	(83)	6,973

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, 2014 and 2013

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2013	¥27,672	¥26,872	¥127,489	¥(269)	¥181,763
Changes during the period					
Cash dividends (¥19.00 per share)			(3,366)		(3,366)
Net income			22,531		22,531
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock		0		0	0
Net changes in items other than shareholders' equity					
Total changes during the period	—	0	19,165	(3)	19,162
Balance at the end of current period	¥27,672	¥26,872	¥146,654	¥(272)	¥200,925

Millions of yen

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2013	¥12,132	¥249	¥(1,654)	¥ —	¥ 760	¥193,250
Changes during the period						
Cash dividends (¥19.00 per share)						(3,366)
Net income						22,531
Purchases of treasury stock						(3)
Disposal of treasury stock						0
Net changes in items other than shareholders' equity	2,426	(228)	4,937	(112)	6,642	13,665
Total changes during the period	2,426	(228)	4,937	(112)	6,642	32,827
Balance at the end of current period	¥14,559	¥ 21	¥ 3,284	¥(112)	¥7,401	¥226,078

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2013	$268,661	$260,888	$1,237,755	$(2,612)	$1,764,692
Changes during the period					
Cash dividends (¥19.00 per share)			(32,676)		(32,676)
Net income			218,748		218,748
Purchases of treasury stock				(33)	(33)
Disposal of treasury stock		1		1	2
Net changes in items other than shareholders' equity					
Total changes during the period	—	1	186,072	(32)	186,041
Balance at the end of current period	$268,661	$260,889	$1,423,827	$(2,644)	$1,950,733

Thousands of U.S. dollars

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2013	$117,788	$2,417	$(16,055)	$ —	$ 7,374	$1,876,216
Changes during the period						
Cash dividends (¥19.00 per share)						(32,676)
Net income						218,748
Purchases of treasury stock						(33)
Disposal of treasury stock						2
Net changes in items other than shareholders' equity	23,557	(2,215)	47,936	(1,089)	64,483	132,672
Total changes during the period	23,557	(2,215)	47,936	(1,089)	64,483	318,713
Balance at the end of current period	$141,345	$ 202	$ 31,881	$(1,089)	$71,857	$2,194,929

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2012	¥27,672	¥26,872	¥114,223	¥(268)	¥168,499
Changes during the period					
Cash dividends (¥17.00 per share)			(2,657)		(2,657)
Net income			15,923		15,923
Purchases of treasury stock				(1)	(1)
Disposal of treasury stock		—		—	—
Net changes in items other than shareholders' equity					
Total changes during the period	—	—	13,265	(1)	13,264
Balance at the end of current period	¥27,672	¥26,872	¥127,489	¥(269)	¥181,763

	Millions of yen					
	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2012	¥ 5,734	¥192	¥(5,291)	¥—	¥202	¥169,335
Changes during the period						
Cash dividends (¥17.00 per share)						(2,657)
Net income						15,923
Purchases of treasury stock						(1)
Disposal of treasury stock						—
Net changes in items other than shareholders' equity	6,399	57	3,637	—	558	10,651
Total changes during the period	6,399	57	3,637	—	558	23,915
Balance at the end of current period	¥12,132	¥249	¥(1,654)	¥—	¥760	¥193,250

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 34,629	¥26,148	$ 336,206
Adjustments —			
Depreciation and amortization	9,810	8,978	95,242
Impairment loss	436	211	4,228
Amortization of goodwill	847	267	8,222
Provision for (reversal of) doubtful accounts	(831)	(1,074)	(8,064)
Provision for loss on business liquidation	(1,435)	—	(13,932)
Provision for (reversal of) employee's retirement benefits, less payments	—	(348)	—
Net changes in defined benefit liability	1,082	—	10,501
Interest and dividends income	(1,520)	(1,332)	(14,758)
Interest expense	1,127	1,270	10,945
Equity in losses of affiliates	522	140	5,066
Losses on devaluation of marketable securities and investment securities	193	235	1,870
Losses (gains) on sales of marketable securities and investment securities, net	(29)	(30)	(285)
Loss (gain) on step acquisitions	(2,124)	—	(20,625)
Losses (gains) on disposal of fixed assets, net	188	37	1,825
Loss on natural disaster	(60)	—	(583)
Change in assets and liabilities:			
Notes and accounts receivable, trade	(4,130)	573	(40,096)
Inventories	(551)	10,401	(5,348)
Other current assets	(4,948)	(4,920)	(48,041)
Notes and accounts payable, trade	16,631	11,451	161,469
Advances received from customers	12,478	4,642	121,148
Other current liabilities	763	(484)	7,408
Other	1,141	453	11,075
Total	64,218	56,617	623,473
Interest and dividends income received	1,945	1,403	18,885
Interest paid	(1,224)	(1,316)	(11,879)
Income taxes paid, net	(10,882)	(10,794)	(105,654)
Net cash provided by operating activities	54,057	45,910	524,825
Cash flows from investment activities:			
Payments into time deposits	(30,457)	(74,356)	(295,697)
Proceeds from withdrawal of time deposits	40,099	56,021	389,309
Decrease (increase) in short-term loans receivable	164	(2,758)	1,595
Payments for purchases of fixed assets	(14,403)	(6,692)	(139,838)
Proceeds from sales of fixed assets	5,379	2,549	52,221
Payments for purchases of intangible assets	(2,912)	(2,525)	(28,273)
Payments for purchases of investment securities	(9,071)	(1,047)	(88,068)
Proceeds from sales of investment securities	155	86	1,502
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4)	—	(37)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(3)	—	(30)
Payments for long-term loans receivable	(11)	(24)	(105)
Repayments of long-term loans receivable	770	706	7,476
Other	(182)	(623)	(1,766)
Net cash used in investment activities	(10,476)	(28,662)	(101,711)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(3,074)	(379)	(29,840)
Payments of lease obligation	(1,917)	(1,922)	(18,609)
Proceeds from long-term debt	7,872	5,630	76,425
Repayments of long-term debt	(11,001)	(6,715)	(106,802)
Proceeds from issuance of bonds with subscription rights to shares	20,000	—	194,175
Dividends paid	(3,366)	(2,657)	(32,676)
Other	(4)	738	(41)
Net cash provided by financing activities	8,511	(5,305)	82,632
Effect of exchange rate changes on cash and cash equivalents	593	(124)	5,756
Net increase (decrease) in cash and cash equivalents	52,685	11,819	511,502
Cash and cash equivalents at the beginning of the year	75,658	63,839	734,544
Cash and cash equivalents at the end of the year (Note 12)	¥128,343	¥75,658	$1,246,046

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

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, 2014, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 58 and 16 (48 and 22 in 2013), respectively.

Okhotsk Bio Energy Co., Ltd. and Mombetsu Biomass Electric Power Co., Ltd., both of which were newly established, and Henley Arch Unit Trust and eight other companies whose equity was additionally acquired and to which the equity method was applied for the previous fiscal year were included in the scope of consolidation from the current fiscal year.

On the other hand, Fuxin Sumirin Wood Products Co., Ltd., which was a consolidated subsidiary for the previous fiscal year, was excluded from the scope of consolidation due to the partial transfer of equity.

In addition, Bloomfield Homes, L.P. and two other companies whose equities were newly acquired and TOCRAS CORPORATION whose shares were newly acquired were included as equity-method affiliates from the current fiscal year.

On the other hand, Henley Arch Unit Trust and eight other companies, all of which the equity method was applied to for the previous fiscal year, and Henley-SFC Housing Pty Ltd. were excluded from the application of the equity method from the current fiscal year due to the additional acquisition of equity and the completion of its liquidation, respectively.

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

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

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

The balance of the reserves at March 31, 2014, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥2,035 million (US$19,761 thousand).

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

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

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

(i) Accrued retirement benefits to directors and corporate auditors
Accrued retirement benefits to directors and corporate auditors of 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, 2014, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥64 million (US$626 thousand).

(j) Marketable securities and investments
Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:
i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

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

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

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

(l) Inventories
Finished goods, logs and lumber are stated at moving average cost.

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 ¥1,857 million ($18,030 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2014.

(m) Property, plant and equipment
Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. 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.

(n) 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.

(o) Impairment of fixed assets
Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in 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.

(p) 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 in case 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.

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

(r) Timberland

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

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost.

The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

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

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

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

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

(s) Revenue recognition

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

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

(t) Income taxes

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

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

(u) Consumption taxes

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

(v) Appropriations of retained earnings

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

(w) Earnings per share of common stock

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

(x) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2013 have been reclassified to conform to presentation in 2014.

(y) Accounting Change

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income. As a result of this change, a liability for retirement benefits and asset for retirement benefits were recognized in the amount of ¥11,038 million ($107,168 thousand) and ¥68 million ($661 thousand) respectively, accumulated other comprehensive income decreased by ¥112 million ($1,089 thousand) and minority interests decreased by ¥0 million ($1 thousand) as of March 31, 2014. In addition, net assets per share decreased by ¥0.63 ($0.006).

(z) Standards issued but not yet effective

(Accounting standards for retirement benefits)

On May 17, 2012, the Accounting Standards Board of Japan (the "ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25).

i) Overview

Under the revised accounting standard, actuarial gains (losses) and prior service cost shall be recognized within net assets after adjusting for tax effects and the difference between retirement benefit obligations and plan assets shall be recognized as a liability or asset. With respect to a method of attributing expected benefits to periods, the straight-line basis was required, but the standard allows the choice of the method of attributing expected benefit to periods on a benefit formula basis (the expected benefit attributed to periods of service under the plan's benefit formula would be deemed as arising in each period). In addition, the computation method of a discount rate has been revised.

ii) Scheduled date of adoption

Revisions to the method of attributing expected benefits to periods and the computation method of discount rate are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015. This accounting standard will not be retrospectively applied since it provides a transitional treatment.

iii) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(Accounting standards for business combinations)
On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

i) Overview

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

(1) Any differences arising from the movement of ownership interests in its subsidiaries shall be accounted for as changes in capital surplus as long as the parent company retains control over its subsidiary. In addition, "Minority interests" in the current year's present consolidated balance sheet will be changed to "non-controlling interests."
(2) Acquisition-related costs shall be accounted for as expenses when incurred.
(3) If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report provisioned amounts for the items whose accounting is incomplete in its financial statements ("provisional accounting"). Under these revised accounting standards, if accounting for a business combination is completed during the next fiscal year (the "completion period") and consolidated financial statements for the completion period and those for the acquisition period are comparatively disclosed, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to the completed amounts and shall reflect new information on facts and circumstances that existed as of the acquisition date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
(4) "Income before minority interests" in the current year's consolidated statement of income will be changed to "net income" and "net income" in the current year's consolidated statement of income will be changed to "net income attributable to shareholders of the parent company."

ii) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

iii) Impact of adopting revised accounting standards and guidance

The effect of adopting these revised standards on its consolidated financial statements is not yet fixed.

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 ¥103 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2014. The approximate rate of exchange prevailing at May 30, 2014 was ¥102 = 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

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,748	¥21,815	¥(76)	¥48,488
Debt securities	—	—	—	—
Other	¥43,000	¥ —	¥ —	¥43,000

	Millions of yen			
	2014			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,646	¥64	¥(0)	¥1,709

	Millions of yen			
	2013			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,601	¥18,066	¥(263)	¥43,404
Debt securities	—	—	—	—
Other	¥11,000	¥ —	¥ —	¥11,000

	Millions of yen			
	2013			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,454	¥72	¥—	¥1,525

	Thousands of U.S. dollars			
	2014			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	$259,691	$211,799	$(734)	$470,756
Debt securities	—	—	—	—
Other	$417,476	$ —	$ —	$417,476

	Thousands of U.S. dollars			
	2014			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	$15,981	$620	$(5)	$16,596

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statement of income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds	¥106	¥69	$1,025
Gross gains	31	18	297
Gross losses	—	—	—

(c) Impairment of securities
Impairment losses for other securities were ¥193 million ($1,870 thousand) and ¥235 million ($2,497 thousand) for the years ended March 31, 2014 and 2013, respectively.

(d) Investments in affiliates included in "Investment securities" as of March 31, 2014 and 2013 were ¥10,857 million ($105,409 thousand) and ¥10,350 million ($110,111 thousand), respectively.

6. Timberland

The investment in timberland at March 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Standing timber:			
Mature timber	¥12,110	¥11,587	$117,572
Growing timber	332	286	3,222
	12,442	11,872	120,794
Land	1,146	1,028	11,130
	¥13,588	¥12,901	$131,924

The timberland accounts at March 31, 2014 and 2013 were reduced by ¥242 million (US$2,351 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, 2014 and 2013 generally represented short-term borrowings which bore interest of 1.23% and 1.77% per annum, respectively. Long-term debt at March 31, 2014 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans, principally from banks and insurance companies, due 2014 to 2035 with interest of 1.09%:			
Secured			
Loans from banks or other	¥ 2,662	¥ 461	$ 25,841
Unsecured			
Bonds issued	15,000	15,000	145,631
Bonds with subscription rights to shares	20,000	—	194,175
Loans from banks or other	30,639	34,299	297,463
Lease obligation	4,926	4,045	47,824
	73,226	53,805	710,934
Portion due within one year			
Bonds issued	10,000	—	97,087
Loans from banks or other	6,685	10,571	64,901
Lease obligation	1,468	1,067	14,253
	18,153	11,638	176,241
	¥55,073	¥42,167	$534,693

The following assets were pledged to secure bank loans and long-term debt at March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥ 2,607	¥ —	$ 25,312
Receivables — Notes and accounts, trade	1,762	456	17,109
Finished goods, logs and lumber	1,556	1,659	15,105
Developed land and housing for sale	8,691	—	84,379
Land and housing projects in progress	8,143	—	79,058
Accounts receivable-other	555	—	5,385
Land	3,190	15	30,974
Buildings and structures	4,527	459	43,947
Machinery, equipment and vehicles	1,440	1,020	13,980
Construction in progress	943	—	9,156
Investment securities	1,401	68	13,599
Other	950	—	9,227
	¥35,765	¥3,677	$347,231

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2014 and 2013 were ¥11 million (US$109 thousand) and ¥11 million, investment securities as security for deferred payment of customs duties at March 31, 2014 and 2013 were ¥12,215 million (US$118,596 thousand) and ¥11,371 million, and investment securities as deposit for housing warranty were ¥1,646 million (US$15,981 thousand) and ¥1,454 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2014 were as follows:

Years ending March 31	Bonds issued Millions of yen	Bonds issued Thousands of U.S. dollars	Long-term debt Millions of yen	Long-term debt Thousands of U.S. dollars	Lease obligation Millions of yen	Lease obligation Thousands of U.S. dollars
2014	¥10,000	$ 97,087	¥ 6,685	$ 64,901	¥1,468	$14,253
2015	—	—	7,633	74,108	1,723	16,732
2016	5,000	48,544	2,317	22,497	1,151	11,175
2017	—	—	3,504	34,017	485	4,712
2018	20,000	194,175	2,403	23,326	88	850
Thereafter	—	—	10,759	104,456	11	102
	¥35,000	$339,806	¥33,300	$323,305	¥4,926	$47,824

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 consisted of the following:

Location	Major use	Asset category	Millions of yen 2014	Thousands of U.S. dollars 2014
Sakura City, Chiba Prefecture	Culture soil producing plant	Buildings and structures	¥134	$1,302
		Machinery, equipment and vehicles	12	117
		Other	0	5
		Total	147	1,424
Nagoya City, Aichi Prefecture	Backbone system	Intangible assets (Software in progress)	158	1,531
		Total	158	1,531
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	35	344
		Total	35	344
Shiraoka City, Saitama Prefecture	Idle assets	Land	90	869
		Total	90	869
			¥429	$4,168

Location	Major use	Asset category	Millions of yen 2013
Osaka City, Osaka Prefecture	2 buildings of rental condominiums	Buildings and structures	¥104
		Land	35
		Total	140
Saijo City, Ehime Prefecture	Warehouse	Buildings and structures	8
		Machinery, equipment and vehicles	1
		Land	17
		Total	25
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	46
		Total	46
			¥211

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 rate for the fiscal years ended March 31, 2014 and 2013 were 38.0%.

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

	2014	2013
Statutory tax rate	38.0%	—%
Non-deductible expense for purposes	0.9	—
Non-taxable dividend income	(0.6)	—
Per capita portion of Inhabitant tax	0.9	—
Amortization of goodwill	0.9	—
Valuation allowance	(1.0)	—
Equity in losses of affiliates	0.6	—
Taxes on undistributed earnings of subsidiaries	(5.5)	—
Gain on step acquisitions	(2.3)	
Effect of changes in corporate tax rates	1.3	—
Other	0.1	—
Effective tax rate	33.2%	—%

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, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 335	¥ 570	$ 3,253
Accrued employees' bonuses	3,684	3,564	35,767
Accrued legal welfare expense on employees' bonuses	496	465	4,819
Enterprise taxes	600	495	5,824
Devaluation of real estate for sale	1,069	677	10,381
Accrued employees' retirement benefits	—	3,413	—
Liability for retirement benefits	3,746	—	36,372
Devaluation of property	1,284	1,743	12,469
Devaluation of financial instruments	2,100	1,881	20,388
Tax loss carryforwards	2,977	2,906	28,904
Impairment loss	1,261	1,201	12,243
Warranty reserve for completed construction	599	685	5,811
Provision for loss on business liquidation	—	511	—
Unrealized profit on fixed assets	499	553	4,843
Other	4,350	5,381	42,233
Gross deferred tax assets	23,001	24,045	223,307
Valuation allowance	(9,435)	(10,567)	(91,599)
Total deferred tax assets	13,566	13,478	131,708
Deferred tax liabilities:			
Deferred gains on sales of property	(799)	(799)	(7,762)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,417)	(13,758)
Unrealized gain on available-for-sale securities	(6,980)	(5,470)	(67,764)
Land revaluation differences	(1,156)	(1,157)	(11,226)
Taxes on undistributed earnings of subsidiaries	(518)	(2,430)	(5,032)
Other	(2,950)	(2,982)	(28,644)
Gross deferred tax liabilities	(13,821)	(14,256)	(134,186)
Net deferred tax assets (liabilities)	¥ (255)	¥ (778)	$ (2,478)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2014 and 2013 as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets — Deferred tax assets	¥ 8,754	¥ 8,077	$ 84,990
Investment and other assets — Deferred tax assets	1,797	1,343	17,450
Current liabilities — Other	—	(1)	—
Long-term liabilities — Deferred tax liabilities	(10,807)	(10,198)	(104,918)
Net deferred tax assets (liabilities)	¥ (255)	¥ (778)	$ (2,478)

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥451 million (US $4,380 thousand) and increase deferred income taxes by ¥452 million (US $4,390 thousand) and increase deferred gain on hedges by ¥1 million (US $10 thousand) as of and for the year ended March 31, 2014.

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Gain on foreign exchange	¥ —	¥ 941	$ —
Loss on foreign exchange	(240)	—	(2,331)
Gain on sales of property, plant and equipment	99	88	965
Loss on sales of property, plant and equipment	(26)	(27)	(254)
Loss on disposal of property, plant and equipment	(261)	(98)	(2,537)
Provision for loss on liquidation of subsidiaries and affiliates	—	(344)	—
Loss on liquidation of subsidiaries and affiliates	(275)	—	(2,669)
Other, net	520	733	5,046
	¥(183)	¥1,293	$(1,780)

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries and allowances	¥40,714	¥37,803	$395,281
Provision for employees' bonuses	9,092	8,330	88,274
Provision for directors' and corporate auditors' bonuses	120	110	1,165
Retirement benefit expenses	3,067	1,724	29,779
Provision for directors' and corporate auditors' retirement benefits	8	13	79
Provision of allowance for doubtful accounts	(115)	(271)	(1,113)
Provision for warranty reserve for completed construction	1,247	1,202	12,109
Reversal of provision for loss on business liquidation	(210)	—	(2,039)

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥1,551 million (US $15,061 thousand) and ¥1,352 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥ 75,694	¥56,155	$ 734,892
Short-term investments	43,000	11,000	417,476
Cash equivalents included in short-term loans receivable	28,997	28,598	281,523
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(19,348)	(20,095)	(187,845)
Cash and cash equivalents	¥128,343	¥75,658	$1,246,046

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of the consolidation, related acquisition cost and net expenditure for acquisition of shares for the fiscal year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥18,138	$176,098
Non-current assets	8,866	86,076
Goodwill	2,986	28,992
Current liabilities	(15,292)	(148,467)
Long-term liabilities	(5)	(52)
Minority interests	(5,838)	(56,681)
Translation adjustments	261	2,536
Gain on step acquisitions	(2,124)	(20,625)
Previously held equity interest before obtaining control	(6,825)	(66,262)
Acquisition cost	166	1,615
Cash and cash equivalents	(162)	(1,578)
Net expenditure for acquisition of shares	¥ 4	$ 37

Assets and liabilities of subsidiary at the time it was excluded from the scope of consolidation, related sales price of shares and net expenditure for sale of shares for the fiscal year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥205	$1,987
Non-current assets	0	4
Current liabilities	(0)	(1)
Long-term liabilities	—	—
Translation adjustments	414	4,019
Net losses on sale of shares	(619)	(6,009)
Sales price of shares	—	—
Cash and cash equivalents	(3)	(30)
Net expenditure for sale of shares	¥ (3)	$ (30)

13. Shareholders' Equity

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

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

The balances of the legal reserve of the Company at March 31, 2014 and 2013, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US$27,739 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, 2014 and 2013, for loans guaranteed amounted to ¥34,960 million (US$339,414 thousand) and ¥31,199 million.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Guarantee on loans from financial institutions			
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,582	¥ 1,980	$ 15,356
Cascadia Resort Communities LLC	53	43	512
Guarantees of housing loans to customers	33,186	29,023	322,196
Other	—	1	—
Guarantee on rent payment			
Sumikyo Co. Ltd.	139	151	1,350
Total	¥34,960	¥31,199	$339,414

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 and bonds in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term investments securities are negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Uses of loans and bonds 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 about a part. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rate related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest 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 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		
	2014		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 75,694	¥ 75,694	¥ —
Receivables-notes and accounts, trade	128,580	128,580	—
Marketable securities and investment securities			
Held-to-maturity	1,646	1,709	63
Available-for-sale	91,488	91,488	—
Receivables-loans and other	87,651	87,651	—
Total	¥385,058	¥385,122	¥ 63
Payables-notes and accounts, trade	¥191,430	¥191,430	¥ —
Total	¥191,430	¥191,430	¥ —
Derivatives*			
Hedge accounting not applied	¥ 248	¥ 248	¥ —
Hedge accounting applied	33	(26)	(59)
Total	¥ 281	¥ 222	¥(59)

	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		
	2014		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	$ 734,892	$ 734,892	$ —
Receivables-notes and accounts, trade	1,248,349	1,248,349	—
Marketable securities and investment securities			
Held-to-maturity	15,980	16,596	616
Available-for-sale	888,232	888,232	—
Receivables-loans and other	850,977	850,977	—
Total	$3,738,430	$3,739,046	$ 616
Payables-notes and accounts, trade	$1,858,544	$1,858,544	$ —
Total	$1,858,544	$1,858,544	$ —
Derivatives*			
Hedge accounting not applied	$ 2,406	$ 2,406	$ —
Hedge accounting applied	321	(251)	(572)
Total	$ 2,727	$ 2,155	$(572)

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

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. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables-notes and accounts, trade)

Because these are settled in 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
	2014	2013	2014
Unlisted equity securities	¥ 1,508	¥ 1,380	$ 14,637
Preferred stock	3,000	3,000	29,126
Investment in affiliates	10,857	10,350	105,409

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

	Millions of yen			
	2014			
	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	¥ 75,394	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	128,580	—	—	—
Marketable securities and investment securities				
Government bonds	—	121	1,525	—
Other	43,000	—	—	—
Receivables-loans and other	87,651	—	—	—
Total	¥334,625	¥121	¥1,525	¥—

	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			
	2014			
	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	$ 731,985	$ —	$ —	$—
Receivables-notes and accounts, trade	1,248,349	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,179	14,802	—
Other	417,476	—	—	—
Receivables-loans and other	850,977	—	—	—
Total	$3,248,787	$1,179	$14,802	$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2014

	Millions of yen			
	2014			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,200	¥ —	¥152	¥152
Buy (NZ dollar)	3,528	—	72	72
Buy (U.S. dollar)	47	—	1	1
Total	¥4,775	¥ —	¥225	¥225
Interest rate swaps:				
Receive floating pay fixed	1,518	1,296	22	22
Total	¥1,518	¥1,296	¥ 22	¥ 22

	Thousands of U.S. dollars			
	2014			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	$11,652	$ —	$1,476	$1,476
Buy (NZ dollar)	34,255	—	702	702
Buy (U.S. dollar)	453	—	10	10
Total	$46,360	$ —	$2,188	$2,188
Interest rate swaps:				
Receive floating pay fixed	14,734	12,585	218	218
Total	$14,734	$12,585	$ 218	$ 218

Derivative transactions to which hedge accounting is applied at March 31, 2014

		Millions of yen		
		2014		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,503	¥ —	¥(43)
Sell (Euro)		2,723	—	(11)
Buy (U.S. dollar)	Accounts amount payable	10,773	—	65
Buy (Euro)		4,760	—	21
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	856	—	*
Buy (Euro)		146	—	*
Total		¥23,761	¥ —	¥33
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	13,573	2,911	(59)
Total		¥13,573	¥2,911	¥(59)

		Thousands of U.S. dollars		
		2014		
	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	$ 43,722	$ —	$(419)
Sell (Euro)		26,433	—	(102)
Buy (U.S. dollar)	Accounts amount payable	104,596	—	636
Buy (Euro)		46,213	—	206
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	8,307	—	*
Buy (Euro)		1,419	—	*
Total		$230,690	$ —	$321
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	131,777	28,266	(572)
Total		$131,777	$28,266	$(572)

* 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 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, 2013

	Millions of yen			
	2013			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
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

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)

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.

For the year ended March 31, 2014
The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows (except the plans under the simplified method):

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at April 1, 2013	¥54,676	$530,838
Service cost	2,771	26,908
Interest cost	893	8,666
Actuarial loss	1,494	14,501
Retirement benefits paid	(1,630)	(15,828)
Prior service cost	8	81
Other	0	5
Retirement benefit obligation at March 31, 2014	¥58,213	$565,171

The changes in plan assets during the year ended March 31, 2014 are as follows (except the plans under the simplified method):

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at April 1, 2013	¥45,695	$443,642
Expected return on plan assets	1,188	11,535
Actuarial loss	323	3,138
Contributions by the Company	2,199	21,346
Retirement benefits paid	(1,381)	(13,407)
Plan assets at March 31, 2014	¥48,024	$466,254

The changes in the liability for retirement benefits, which were calculated by the simplified method during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits at April 1, 2013	¥698	$6,776
Retirement benefit expense	162	1,571
Retirement benefits paid	(47)	(454)
Contributions by the Company	(56)	(541)
Other	24	239
Liability for retirement benefits at March 31, 2014	¥782	$7,591

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥55,801	$541,759
Plan assets at fair value	(48,475)	(470,634)
	7,326	71,125
Unfunded retirement benefit obligation	3,644	35,382
Net liability for retirement benefits in the balance sheet	10,970	106,507
Liability for retirement benefits	11,038	107,168
Asset for retirement benefits	(68)	(661)
Net liability for retirement benefits in the balance sheet	¥10,970	$106,507

Note: The table above includes the plans under the simplified method.

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Service cost	¥2,771	$26,908
Interest cost	893	8,666
Expected return on plan assets	(1,188)	(11,535)
Amortization of actuarial loss	1,029	9,993
Amortization of prior service cost	2	21
Retirement benefit expense under the simplified method	162	1,571
Other	9	89
Retirement benefit expense	¥3,678	$35,713

Unrecognized actuarial loss and unrecognized prior service cost included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Unrecognized actuarial loss	¥141	$1,365
Unrecognized prior service cost	6	60
Total	¥147	$1,425

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	2014
Bonds	62%
Stocks	23%
Other	15%
Total	100%

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

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

	2014
Discount rates	1.5%
Expected rates of return on plan assets	2.6%

Contributions to defined contribution retirement benefit plans were ¥691 million ($6,705 thousand) for the year ended March 31,2014.

For the year ended March 31, 2013
The liability for employees' retirement benefits at March 31, 2013 consisted of the following:

	Millions of yen 2013
Projected benefit obligation	¥(55,782)
Fair value of plan assets	46,103
Unrecognized actuarial loss	—
Unrecognized prior service cost	—
Prepaid pension cost	—
Net liability for retirement benefits	¥ (9,679)
Net liability for retirement benefits consist of:	
Prepaid pension cost	¥ 41
Accrued employees' retirement benefits	(9,720)
	¥ (9,679)

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

	Millions of yen 2013
Service cost	¥2,795
Interest cost	926
Expected return on plan assets	(1,098)
Recognized actuarial loss	(352)
Amortization of prior service cost	—
Expense of changing accounting method	—
Net periodic benefit cost	¥2,271
Gain on transition to defined contribution pension plan	(19)
Gain on abolishment of retirement benefit plan	—
Other	703
Total periodic benefit cost	¥2,955

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

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

	2013
Discount rate	1.6%
Expected rate of return on plan assets	2.6%
Recognition period of actuarial gain / loss	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, 2014 and 2013 were ¥469 million (US$4,551 thousand) and ¥615 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
2013	Increase / (Decrease)	2014	2014	2014	2014
¥9,308	¥(625)	¥8,683	¥8,300	$84,297	$80,583

The main components of net change in carrying amount above are the increase of ¥40 million ($392 thousand) in acquisitions of real estate and the decrease of ¥506 million ($4,908 thousand) in sales of real estate and of ¥35 million ($344 thousand) in impairment loss for the year ended March 31, 2014.

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

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

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

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

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

	Millions of yen							
Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥437,727	¥464,777	¥61,926	¥ 964,430	¥ 7,676	¥ 972,106	¥ 862	¥972,968
Intersegment transfers	20,884	591	14,395	35,869	9,610	45,479	(45,479)	—
Total	458,611	465,368	76,320	1,000,299	17,286	1,017,585	(44,617)	972,968
Segment income (loss)	4,950	32,211	(149)	37,013	821	37,835	(4,268)	33,567
Segment assets	164,324	146,267	101,408	412,000	24,303	436,302	208,895	645,197
Other items								
Depreciation and amortization	¥ 670	¥ 4,244	¥ 3,073	¥ 7,986	¥ 981	¥ 8,967	¥ 842	¥ 9,810
Amortization of goodwill	(0)	8	836	844	3	847	—	847
Interest income	50	55	201	305	1	306	141	448
Interest expense	574	612	952	2,138	100	2,237	(1,110)	1,127
Equity in earnings of affiliates	(188)	0	(409)	(597)	75	(522)	0	(522)
Investments in affiliates	1,328	5	7,138	8,472	393	8,865	(10)	8,855
Increase in tangible and intangible fixed assets	¥ 924	¥ 4,991	¥ 5,012	¥ 10,927	¥ 5,238	¥ 16,165	¥ 1,239	¥ 17,404

	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

Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
	Thousands of U.S. dollars							
Sales and contract revenues:								
Unaffiliated customers	$4,249,780	$4,512,398	$601,219	$9,363,397	$ 74,522	$9,437,919	$ 8,372	$9,446,291
Intersegment transfers	202,756	5,735	139,753	348,244	93,305	441,549	(441,549)	—
Total	4,452,536	4,518,133	740,972	9,711,641	167,827	9,879,468	(433,177)	9,446,291
Segment income (loss)	48,063	312,732	(1,444)	359,351	7,975	367,326	(41,438)	325,888
Segment assets	1,595,382	1,420,069	984,545	3,999,996	235,949	4,235,945	2,028,106	6,264,051
Other items								
Depreciation and amortization	$ 6,502	$ 41,202	$ 29,833	$ 77,537	$ 9,526	$ 87,063	$ 8,177	$ 95,240
Amortization of goodwill	(2)	76	8,120	8,194	29	8,223	—	8,223
Interest income	483	533	1,948	2,964	12	2,976	1,372	4,348
Interest expense	5,570	5,943	9,240	20,753	967	21,720	(10,775)	10,945
Equity in earnings of affiliates	(1,822)	0	(3,973)	(5,795)	725	(5,070)	4	(5,066)
Investments in affiliates	12,895	49	69,304	82,248	3,817	86,065	(97)	85,968
Increase in tangible and intangible fixed assets	$ 8,970	$ 48,458	$ 48,656	$ 106,084	$ 50,858	$ 156,942	$ 12,031	$ 168,973

(Related information)

(1) Products and services information

Year ended March 31, 2014	Timber and Building Materials	Housing	Other	Total
	Millions of yen			
Sales and contract revenues to unaffiliated customers	¥467,841	¥499,215	¥5,912	¥972,968

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

Year ended March 31, 2014	Timber and Building Materials	Housing	Other	Total
	Thousands of U.S. dollars			
Sales and contract revenues to unaffiliated customers	$4,542,149	$4,846,748	$57,394	$9,446,291

(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, 2014	Japan	Oceania	Asia	Other	Total
	Millions of yen				
	¥61,864	¥26,471	¥13,208	¥2,190	¥103,733

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

Year ended March 31, 2014	Japan	Oceania	Asia	Other	Total
	Thousands of U.S. dollars				
	$600,622	$257,001	$128,233	$21,261	$1,007,117

(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, 2014	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥158	¥131	¥—	¥147	¥—	¥436

	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

	Thousands of U.S. dollars					
Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	$1,531	$1,273	$—	$1,424	$—	$4,228

(Amortization and balance of goodwill)

	Millions of yen					
Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥ (0)	¥ 8	¥ 836	¥ 3	¥—	¥ 847
Balance of goodwill	—	13	3,108	—	—	3,122

	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

	Thousands of U.S. dollars					
Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	$ (2)	$ 76	$ 8,119	$29	$—	$ 8,222
Balance of goodwill	—	130	30,178	—	—	30,308

21. Amounts per Share

(a) Basic and diluted net income per share
The computation of net income per share and net income per share fully diluted for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income per share:			
Net income	¥22,531	¥15,923	$218,747
Income not available to common stockholders	—	—	—
Income available to common stockholders	22,531	15,923	218,747
Weighted average number of shares issued	177,134,880	177,137,337	
Net income per share fully diluted			
Adjusted net income	—	—	
Common shares increase	7,303,981	—	
(Convertible bonds with stock acquisition rights)	(7,303,981)	(—)	

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

(b) Net assets per share
The computation of net assets per share for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net assets per share:			
Total net assets	¥226,078	¥193,250	$2,194,929
Amounts deducted from total net assets	7,401	760	71,856
Minority interests	7,401	760	71,856
Net assets attributable to shares of common stock	218,676	192,491	2,123,073
The number of shares of common stock used for the calculation of net assets per share	177,133,771	177,136,527	

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities			
Amount incurred during the year	¥3,751	¥ 9,093	$36,419
Reclassification adjustments for gains and losses included in net income	185	216	1,800
Amount before tax effect	3,937	9,309	38,219
Tax effect	(1,511)	(2,911)	(14,671)
Unrealized gain on available-for-sale securities	2,425	6,398	23,548
Deferred gain on hedges			
Amount incurred during the year	(373)	90	(3,620)
Reclassification adjustments for gains and losses included in net income	2	2	21
Amount before tax effect	(371)	93	(3,599)
Tax effect	143	(36)	1,384
Deferred gains on hedges	(228)	57	(2,215)
Translation adjustments			
Amount incurred during the year	4,526	2,866	43,944
Reclassification adjustments for gains and losses included in net income	414	—	4,018
Amount before tax effect	4,940	2,866	47,962
Tax effect	—	—	—
Translation adjustments	4,940	2,866	47,962
Share of other comprehensive income of affiliated companies accounted for by the equity method			
Amount incurred during the year	767	799	7,444
Reclassification adjustments for gains and losses included in net income	(660)	—	(6,411)
Share of other comprehensive income of affiliated companies accounted for by the equity method	106	799	1,033
Total other comprehensive income	¥7,244	¥10,120	$70,328

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 0.14% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance at beginning of the year	¥1,382	¥1,380	$13,416
Liability incurred for assets acquired	130	95	1,263
Accretion expense	11	11	104
Liabilities settled	(137)	(104)	(1,329)
Other increases(decreases)	47	—	460
Balance at end of the year	¥1,433	¥1,382	$13,914

24. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2014 are summarized as follows:

			Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts
Hideyuki Kamiyama	Director of the Company	Renovation of residence	¥11	$106

Prices for renovation of residence were determined based on the same terms as third party transactions.

There were no transactions to be disclosed for the year ended March 31, 2013.

25. Business Combination

Acquisition of equities of Henley Arch Unit Trust and eight other companies

The Company acquired shares of Henley Arch Unit Trust and eight other companies through its subsidiary, Sumitomo Forestry Australia Pty Ltd., to make them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and description of its business

Name of the acquiree: Henley Arch Unit Trust and eight other companies

Description of business: Construction and sale of custom-built homes and spec homes

(2) Main Reason for implementing the business combination

The Company has developed the Australia housing business since the acquisition of equities of Henley Arch Unit Trust and eight other companies in September 2009 while maintaining an equal partnership, and has also introduced and developed its distinctive sales methods in the United States housing market since 2011. The Company has acquired an additional equity interest and made them subsidiaries in order to establish a new management structure that clarifies the management initiative of the Company and to expand the housing business in Australia and the United States further.

(3) Date of the business combination: September 27, 2013

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

(5) Name of the merged entity: The names will not be changed.

(6) Ratio of voting rights acquired: 51%

Equity interest held by the Company before acquisition	50%
Equity Interest to be acquired	1%
Equity interest to be held by the Company after acquisition	51%

(7) Main reasons for determination of the acquirer

The Company's consolidated subsidiary, Sumitomo Forestry Australia Pty Ltd., acquiring the equities for cash consideration.

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

From July 1, 2013 to December 31, 2013

Operational results of the acquiree from January 1, 2013 to June 30, 2013 is recorded in equity in losses of affiliates as the transaction is regarded to complete on June 30, 2013.

3. Breakdown of the acquisition cost of the acquiree

Consideration for acquisition:	¥8,949 million (US$86,887 thousand)
Costs incurred additionally for acquisition:	¥166 million (US$1,615 thousand)
Acquisition cost:	¥9,116 million (US$88,502 thousand)

4. Difference of total cost of acquisition and individual acquisition costs

Gain on step acquisition: ¥2,124 million (US$20,625 thousand)

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

(1) Amount of goodwill: ¥2,986 million (US$28,992 thousand)

(2) Reason for recognition
The acquisition cost was more than net asset value at the date of business combination.

(3) Amortization method and period
Straight-line amortization over 3 years

6. Amount and major components of assets and liabilities assumed at the date of business combination

See Note 12.

7. Content of the contingent consideration for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years

(1) Content of the contingent consideration for acquisition
The contingent consideration depends on the degree of achievement of business performance and others after the acquisition date.

(2) Accounting treatment policy for the relevant and subsequent consolidated fiscal years
In the event an additional payment has been made, the Company deems it as having been paid at the time of acquisition and modifies the goodwill amount and the accumulated amortization amount.

8. Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it is assumed that the business combination was concluded on April 1, 2013, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	¥22,725	$220,627
Income before income taxes	194	1,888
Net income	(260)	(2,528)

(Method by which estimated amounts were calculated)
The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

26. Subsequent Events

Acquisition of equities of Gehan Homes, Ltd. and six other companies

The Company acquired shares of Gehan Homes, Ltd. and six other companies through its US subsidiary, Sumitomo Forestry America, Inc. (the company name was changed from Sumitomo Forestry Seattle, Inc. on February 10, 2014), to make them its subsidiaries.

1. Summary of the business combination

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

(2) Main Reason for implementing the business combination
The Company has been focusing on business expansion with a view to becoming a builder covering the entire US nation in the US housing business under a policy that places the overseas business as one of its core growth businesses. In the course of this expansion, the equities of Gehan Homes, Ltd. and six other companies were acquired to make them subsidiaries.

(3) Date of the business combination: April 30, 2014 (US date)

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

(5) Name of the merged entity: The names will not be changed.

(6) Ratio of voting rights acquired: 51%

(7) Main reasons for determination of the acquirer
The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., acquiring the equities for cash consideration.

2. Breakdown of the acquisition cost of the acquiree

Consideration for acquisition: ¥7,306 million (US$70,927 thousand) (estimate)*
Acquisition cost: ¥7,306 million (US$70,927 thousand) (estimate)*

* The amounts described above are estimates at the time of acquisition, and the actual amounts may differ from these due to future price adjustments and other reasons.

3. Value, reason, and amortization method and period of goodwill

Undetermined at the present time.

4. Value of assets acquired and liabilities assumed on the date of the business combination and their major breakdown

Undetermined at the present time.

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Building a better working world

Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 20, 2014
Tokyo, Japan

Ernst & Young ShinNihon LLC