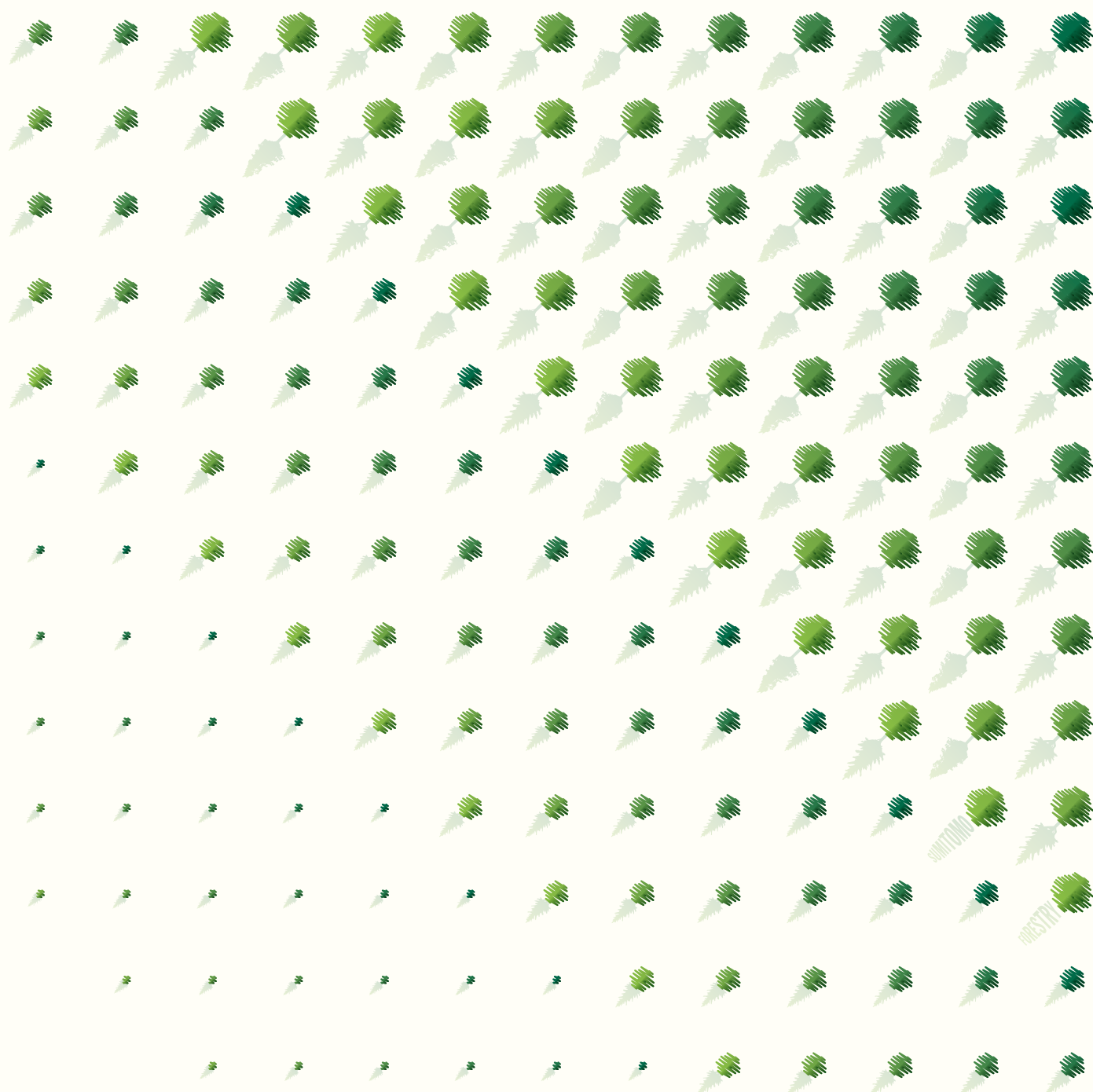


Happiness Grows from Trees



Sustainable Growth with Forests

Annual Report 2016 (Year ended March 31, 2016)





Why do people love trees?

Probably because humans have co-existed with trees on earth for ages and we have become intimately aware of how extraordinary they are.

Trees have a kindness about them. They produce oxygen that sustains life on earth and they give shade that blocks scorching sunlight.

Trees have warmth. When you touch a tree, instead of heat being drawn away from your body, you feel warmth.

And trees protect us. Harboring soft-skinned humans in their bounty, they shelter us from heat, cold, wind and rain.

Beyond all this, trees are beautiful. Anyone who has spent time in a place filled with trees knows their strength to comfort and heal body and soul.

Helping to keep the world thriving with the bounty of trees is our work.

Trees are invaluable resource, vital and intimately connected to life.



Company-owned forest (Shikoku)

No other work could bring such joy and happiness — that's how we at the Sumitomo Forestry Group feel when we consider the boundless importance of trees.

Our work is not only about using trees. It's about sustaining life on earth with trees. We plant trees, nurture their growth, and seek new ways to expand their potential. We strive to share the joy of living amongst the abundant gifts of trees with everyone on earth.

Today there is growing awareness of the need for a sustainable society. The Sumitomo Forestry Group shares this commitment. Together, let's nurture growth that will thrive long into the future.

“Happiness Grows from Trees”
Sumitomo Forestry Group



From Seed to Forest

We will contribute to society and the environment through the unlimited potential of wood. Our operations cover wood-related business fields both upstream and downstream, from our forestry management operations where we plant and nurture forests to homebuilding that utilizes the unique properties of wood and even further to wood biomass power generation. We will continue to grow with society, making effective use of this renewable resource. The Sumitomo Forestry Group will advance through a wide range of endeavors going forward.



An elementary school under construction in Higashimatsushima (Miyagi)

Corporate Philosophy

The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services.

Action Guidelines

■ Sumitomo Spirit

We conduct business that is beneficial to society based on the principles of integrity and sound management.

■ Respect for Humanity

We work to create an open and inclusive corporate culture that values diversity.

■ Environmental Responsibility

We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society.

■ Putting Customers First

We are thoroughly committed to customer satisfaction through the provision of high-quality products and services.

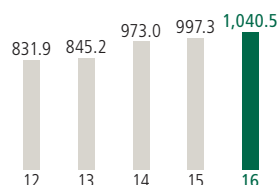
Financial (Years ended March 31)

Net Sales

1,040.5

billion yen

YoY change **+4.3%**

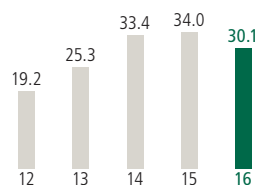


Operating Income

30.1

billion yen

YoY change **-11.5%**

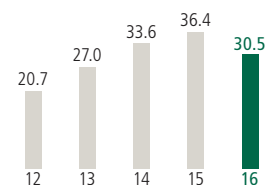


Recurring Income

30.5

billion yen

YoY change **-16.2%**

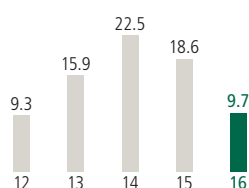


Profit Attributable to Owners of Parent

9.7

billion yen

YoY change **-47.6%**

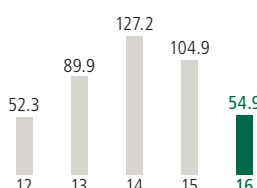


Net Income per Share

54.9

yen

YoY change **-49.9 yen**

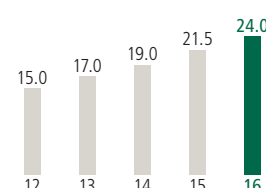


Dividend per Share

24.0

yen

YoY change **+2.5 yen**

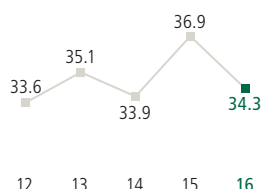


Equity Ratio

34.3

%

YoY change **-2.6 points**

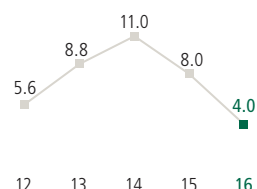


ROE (Return on Equity)

4.0

%

YoY change **-4.0 points**

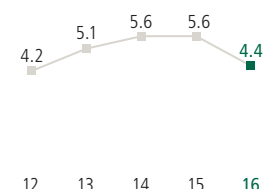


ROA (Return on Assets)

4.4

%

YoY change **-1.1 points**



External Commendations

Inclusion in Socially Responsible Investment Indexes

(As of July 2016)

FTSE4Good Global Index

We have been included in this index since 2004.



Morningstar SRI Index

We have been included in this index since 2008.



"Bronze Class" in RobecoSAM's The Sustainability Yearbook 2016

We were awarded the "Bronze Class" commendation in The Sustainability Yearbook 2016, a CSR rating by RobecoSAM, which researches and analyzes companies to be listed in DJSI, in addition to being selected as one of the world's most sustainable companies for the ninth straight year in the Homebuilding Industry Sector.



Sustainability

Carbon Stock*¹

(From timber used in the Custom-Built Detached Housing Business)

Approximately

175,000

t-CO₂

Year ended March 31, 2015

Approximately **198,000 t-CO₂**

*1. The volume of CO₂ fixed in timber used in custom-built detached houses constructed by the Group. A Sumitomo Forestry home has a carbon stock of about 22.6 t-CO₂.

Company-Owned and Managed Forests

Domestic

46,443

ha

As of April 1, 2015 **46,247 ha**

*2. As of April 1, 2016

Company-Owned and Managed Forests

Overseas

Approximately

230,000

ha

As of March 31, 2015

Approximately **200,000 ha**

*3. As of June 30, 2016

Selected for inclusion as a Health & Productivity Stock and a Nadeshiko Brand, both jointly promoted by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.



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Pursuing the Unlimited Potential of Trees and Sustainable Growth

The start of the Sumitomo Forestry Group's business goes back to 1691 when the Sumitomo family's Besshi Copper Mine started operation and we took on the management of the surrounding forests. Since founding through to now, we have always been guided by the Sumitomo Spirit of "We conduct business that is beneficial to society based on the principles of integrity and sound management" at the base of our corporate philosophy, and responded to the requirements of the times to spread from the Forestry Business into the Timber and Building Materials Business, and further onward to the Overseas Business and Housing Business.

In the long period of more than 320 years since our founding, we have protected forests and pursued the limitless possibilities of wood. Forests not only absorb carbon dioxide, they function as a public asset by maintaining biodiversity, preventing soil erosion and supporting water resources.

Globally, responding to problems encompassing the environment has become an urgent task due to factors such as the increase of climate irregularities associated with deforestation and large-scale natural disasters. Furthermore, the environment and energy issues are becoming even more pressing due to factors including economic development and rising populations in emerging countries.

Under these conditions, the Paris Agreement for mitigating global warming at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change (COP21) held last year in Paris, France, included policies emphasizing forestry, highlighting how trees and forests are expected to play such an increasingly important role.

Trees can be renewed with planting, possess outstanding heat insulating properties and durability and provide alternative energy sources as biomass fuel. Now, technological innovations using trees have enabled the use of lumber not just in housing construction, but also in large-scale, non-residential buildings and demand has started to spread in fields such as the nursing care and medical care fields.

In times such as these, we consider it our mission to maximize the power of wood resources, aim for sustainable growth and contribute to realizing a sustainable society through our business. Looking ahead, we remain committed in areas all over the world to implementing our corporate philosophy, which states, "The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services." We thereby apply even greater effort to become a corporate group trusted by stakeholders and societies.

Ryu Yano
Chairman and Representative Director



Interview with the President

As we work toward reaching the goals of our new medium-term management plan, we will build an earnings portfolio that can respond to changes in the times, building an even stronger business base to achieve sustainable growth.

Akira Ichikawa
President and Representative Director

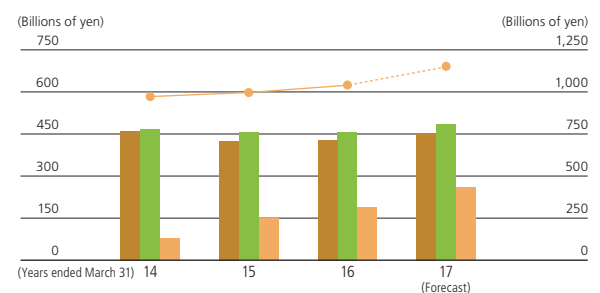
Fiscal 2015 (the fiscal year ended March 31, 2016) Consolidated Results

Net sales broke through ¥1,000 billion for the first time since our foundation, with recurring income exceeding ¥30.0 billion for the third consecutive year.

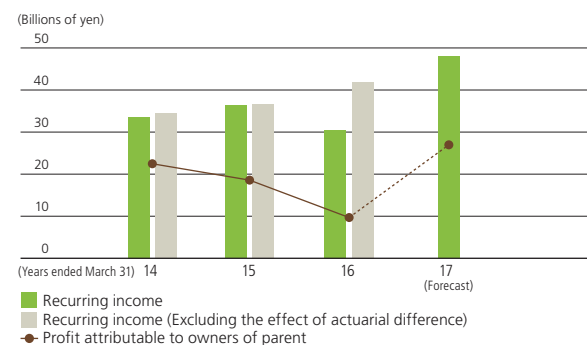
In fiscal 2015, the domestic economy continued on a gradual recovery, boosted by factors such as an improved employment situation and an increase in capital investment. While individual consumption showed signs of overall sluggishness, in the housing market, new housing starts turned to a recovery trend, increasing 4.6% year on year to 921,000 units. Of these, 284,000 were owner-occupied homes, a year on year increase of 2.2%. In the global economy, the United States showed strength, but with an economic slowdown in emerging countries, the recovery as a whole has been gradual.

Under these conditions, we worked to focus on improving profitability by providing better products and services in our mainstay domestic businesses, the Timber and Building Materials Business and the Custom-Built Detached Housing Business. We also boosted our business performance overall by expanding our Overseas Business through M&As and other efforts. As a result, consolidated net sales rose 4.3% year on year to ¥1,040.5 billion, surpassing the ¥1,000 billion threshold for the first time. Meanwhile, recurring income fell by 16.2% year on year to ¥30.5 billion, due to recording a single fiscal year lump-sum depreciation of ¥11.5 billion in expenses for actuarial difference in accounting for retirement benefits with the impact of lower market interest rates. Profit attributable to owners of parent was down 47.6% year on year to ¥9.7 billion. However, the Company secured recurring income to exceed ¥30.0 billion for the third consecutive year. Note

Consolidated Net Sales and Segment Sales



Recurring Income and Profit Attributable to Owners of Parent





Sumitomo Forestry's Tsukuba Research Institute (Sustainable Energy House)

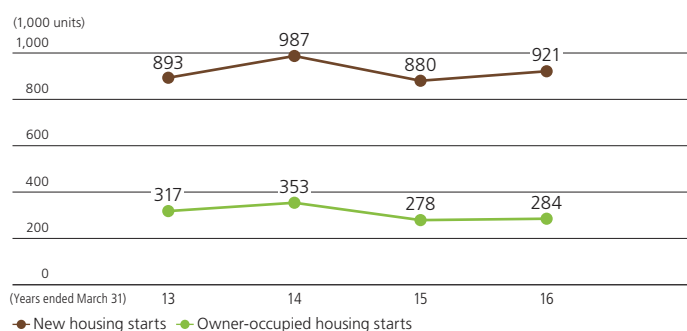
that, excluding the impact of actuarial losses, recurring income on a core business basis was ¥42.0 billion, a year on year increase of 14.6%.

In the Housing Business, we continued our efforts in the Custom-Built Detached Housing Business to enhance product and service proposal capabilities and meet the increasingly diverse and sophisticated needs of customers. These efforts included advancing our Grand Estate Design Project, which is focused on providing high-quality residences with outstanding designs, and expanding sales of homes using our proprietary Big-Frame (BF) construction method, which offers superior earthquake resistance and the ability to create large spaces. We also expanded our sales bases for rental housing in response to growing demand. Meanwhile, in the Renovation Business, we increased staff, focused on expanding orders through upfront promotion of the Group's advanced technological capabilities in areas such as earthquake-resistance and thermal insulation, and endeavored to expand the operations of the Housing Business overall.

In the Timber and Building Materials Business, we worked to improve profitability by focusing on products responding to market changes, such as fuel chips for biomass power generators. We also worked to increase sales of timber and building materials in Southeast Asia, where growth is expected, including the establishment of a local company in India. We also expanded our business overseas primarily in the Pacific Rim.

In the Overseas Business, earnings grew due to an increase in the number of houses sold, supported by firm housing markets in the United States and Australia. We also acquired an equity interest in a housing firm doing business in the eastern part of the United States, further expanding the scale of our business there.

Number of New Housing Starts in Japan



Big Columns, more than five times wider than ordinary posts, are used in the Big-Frame construction method

Fiscal 2016 (the fiscal year ending March 31, 2017) Consolidated Forecast

The Group forecasts new record income and profit, with increases in sales and income across all segments.

The domestic economy is expected to continue on a recovery track, but there are concerns about the impact on economic trends of the postponement of another hike in the consumption tax and other uncertainties. Meanwhile, we believe the global economy will also show gradual growth, based on a brisk U.S. economy, though there are concerns about the impact of slowing growth in China and a further drop in oil prices.

Under these circumstances, we aim to maintain our handling volume of domestic market share in the Timber and Building Materials Business, while also increasing our share in existing product fields. At the same time, we will strengthen our response to growth markets such as renovation materials and accelerate overseas development. In the Housing Business, we will strengthen our differentiation by



Grand Estate Design Project (The Tachikawa Model Home)

enhancing the product lineup while pursuing nationwide development of the Grand Estate Design Project for responding to customers' various preferences. Furthermore, we will strengthen product and technical capabilities, for example by expanding orders for renovations of classic and traditional Japanese-style homes while at the same time advancing effective sales strategies. In addition to this, we will work to reduce costs in all areas to raise our competitiveness, capturing share even in the midst of uncertain market conditions and building a highly profitable business base.



Sumitomo Forestry Group renovation of a traditional Japanese-style house



A house built by the Dan Ryan Builders Group, in which we acquired a stake in January 2016 (operates on the U.S. East Coast)

In our Overseas Business, our efforts are aimed at ensuring the stable operation of our factories and bolstering our sales of high-value-added products such as lightweight wooden board, as we work to improve profitability. In the Overseas Housing and Real Estate Business, we will keep a close watch over market trends in each area and push forward to expand scale by considering entry into new regions, as well as M&A opportunities. In addition, we will leverage experience in Japan to expand the Overseas Business through new initiatives including entry facilitated by the Landscaping Business, which involves activities such as planting and gardening in detached housing areas.

Through these and other efforts, we expect net sales in fiscal 2016 to increase 10.5% year on year, to ¥1,150.0 billion, with recurring income up by 57.3% year on year to ¥48.0 billion and profit attributable to owners of parent increasing by 177.6% year on year to ¥27.0 billion. These represent a new record-high income and profit, with increases in sales and income across all segments.

Sumitomo Forestry Group 2018 Medium-Term Management Plan

Promoting Change for a New Stage

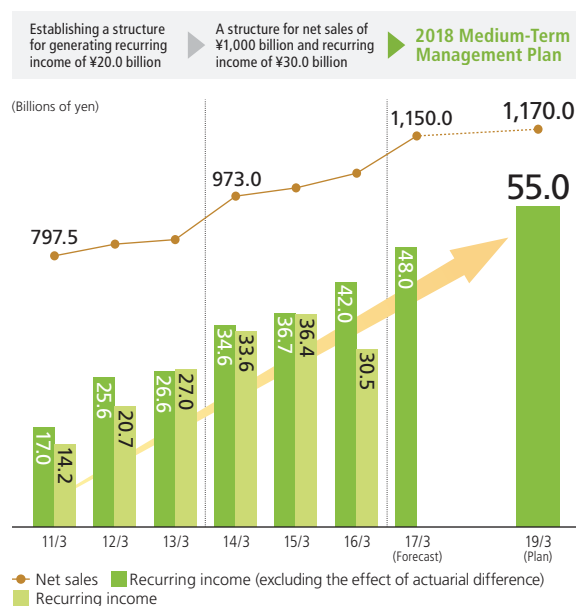
The Sumitomo Forestry Group has formulated a new three-year plan, the Sumitomo Forestry Group 2018 Medium-Term Management Plan, which establishes targets through the fiscal year ending March 31, 2019. The main theme of this medium-term management plan is "promoting change for a new stage." Its goal is to develop a business structure that allows for building a business base for sustainable growth, even in the midst of significant changes in the business environment in Japan and overseas.

Looking back over the past six years, in the three years between fiscal 2010 and fiscal 2012, we focused on creating a business structure capable of generating ¥20.0 billion in recurring income, primarily by reducing costs to improve profitability. In the following three-year period, we aimed to continue enhancing profitability while expanding the scale of our business, with the objective of building a business structure to support net sales in excess of ¥1,000 billion and ¥30.0 billion in recurring income. We believe we have largely achieved these targets, and plan to implement further reforms in anticipation of future growth.

Japan has entered the age of a matured society. Looking at the business environment from now on over the medium to long term, the birthrate will continue to fall and the population will age and decline. This era will be completely different from the past, where economic development was always assumed. We must therefore correctly anticipate changes and advance our business strategy.

➔ After steadily executing our plans to increase profitability and expand the scale of our business over the past six years, we are moving to a new growth stage.

Past Earnings Trends



For example, even if we cannot expect steady growth in the new housing market, we are projecting expansion in the renovation market. In earthquake-prone Japan, many homes do not meet the new earthquake resistance standard and as of 2013 there were still about 9 million homes with insufficient earthquake countermeasures. This means the seismic resistance ratio* for existing homes is only 82%. This is some distance from the government's goal of having 95% of existing homes seismic-resistance by 2020. In addition, to resolve the issue of more than about 8.2 million empty homes, renovation demand continues to rise. The Japanese housing market has entered an age of quality over quantity, against a backdrop of these social issues and customers' diversifying values. These trends will grow stronger going forward.

Moreover, looking overseas, population increases and economic growth continue, centered on Asia's emerging countries. Going forward, dramatic changes in the social environment are expected as lifestyle standards improve in emerging countries. In such an environment, it will not be possible to achieve growth by simply continuing with existing thoughts and values.

To respond flexibly to these market changes and achieve the objectives of the medium-term management plan, it is crucial that we change the Sumitomo Forestry Group's businesses and business portfolio.

Specifically, in the domestic Housing Business, we will expand the ratio of earnings from the Renovation Business and Apartment Business, which have promising markets, while maintaining the earnings scale in the Custom-Built Detached Housing Business, where the environment is severe. In addition, increasing the ratio of earnings from the Overseas Business, which is unaffected by the Japanese market environment, we will build an earnings structure with greater stability.

To do that, we will move forcefully to advance our business in line with the following three basic policies:

- (1) Pursuing a strategy that anticipates societal changes
- (2) Diversifying revenue sources in the global market
- (3) Transforming the value of wood

See the Feature section on pages 14–18 for details.

* Seismic resistance ratio: The number of houses with earthquake resistance meeting the current earthquake resistance standards introduced in 1981 versus the total number of houses (Ministry of Land, Infrastructure, Transport and Tourism 2013 estimate)

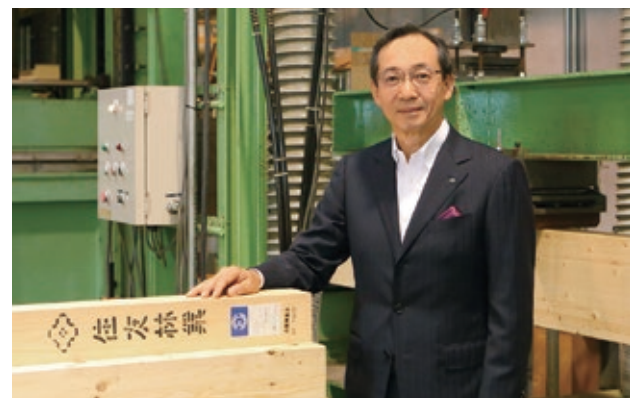
Pursuing a strategy that anticipates societal changes

Diversifying revenue sources in the global market

Sumitomo Forestry Group 2018 Medium-Term Management Plan

Transforming the value of wood

Over the next three years, we will build a stronger business base for sustainable growth by
"Promoting Change for a New Stage"



Tsukuba Research Institute (wood material strength testing equipment)

Medium-Term Management Plan Numerical Targets

	Fiscal 2015 actual (year ending March 31, 2016)	Fiscal 2018 plan (year ending March 31, 2019)
Net sales	¥1,040.5 billion	¥1,170.0 billion
Recurring income	¥30.5 billion	¥55.0 billion
Net income attributable to owners of parent	¥9.7 billion	¥31.5 billion
Return on equity (ROE)	4.0%	10% or more

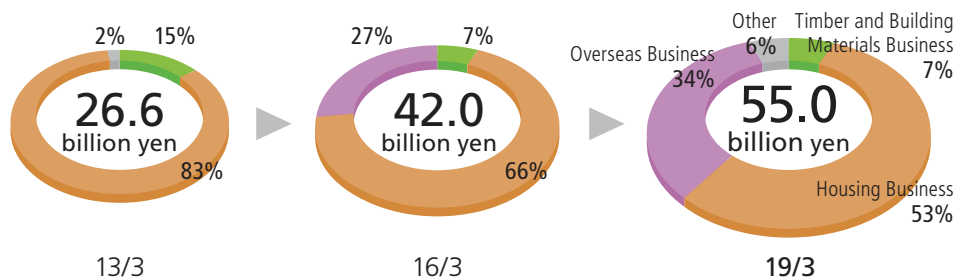
The aim is to achieve ¥1,170.0 billion in net sales and ¥55.0 billion in recurring income in fiscal 2018, the target year of the plan. The target for ROE will be to secure a return of 10% or more.

➡ Increase the ratio of overseas earnings further to achieve sustainable growth

Change in recurring income ratio by segment*1

*1 Ratios in the pie charts are computed based on recurring income by business segment (consolidated recurring income less adjustments and segment income deductions).

*2 The pie charts exclude actuarial difference.



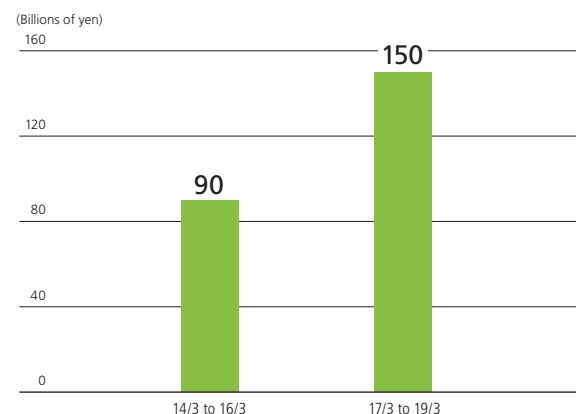
Shareholder Returns

We will work to provide ongoing, stable returns.

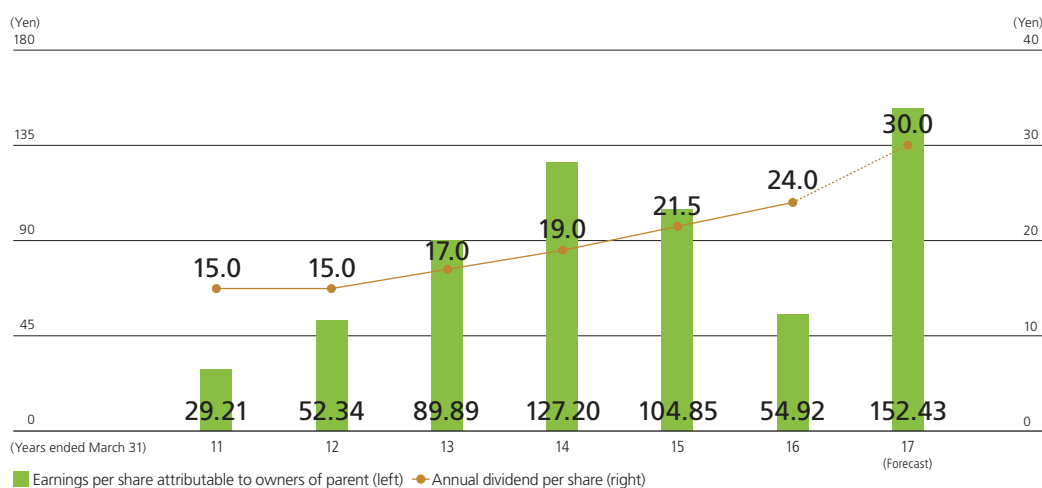
At Sumitomo Forestry, we consider providing returns to shareholders to be one of our most important management tasks. Our basic policy is to pay stable, ongoing returns that comprehensively take into account the balance between our business platform, financial condition, cash flow and other factors, while returning an appropriate level of returns in line with earnings. Based on this policy, in the fiscal year ended March 31, 2016, we paid ¥24 per share, an increase of ¥2.5 from the previous fiscal year. For the fiscal year ending March 31, 2017, we plan to increase the annual dividend by ¥6 to ¥30 per share.

Under the medium-term management plan which calls for raising earnings levels, we plan a record ¥150.0 billion in growth investment over the next three years, in addition to R&D investment. To do this, we will give comprehensive consideration for the cash generated by increased earnings in the balance between returns to shareholders and growth investment, and pay a stable dividend.

Investment Trends



Annual Dividend per Share and Earnings per Share Attributable to Owners of Parent



Approximately 31,000 hectares of timberland in New Zealand (purchased in June 2016)

To Our Stakeholders

We aim to maximize corporate value based on sustainable philosophies developed over more than 320 years.

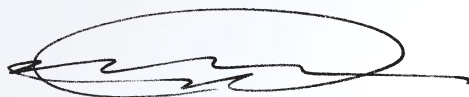
We aim to continue maximizing corporate value by achieving the goals in the Sumitomo Forestry Group 2018 Medium-Term Management Plan, a three-year plan that started from fiscal 2016.

Human resources are a driving force to steadily implement our business strategy to further raise corporate value. To maximize the individual abilities of all employees we expand the role of women as a matter of course, and consider it important to create a free and vigorous corporate climate that respects the diversity of all employees so they will feel motivated to work with passion. Based on that belief, the Sumitomo Forestry Group will actively work to change the mindsets of all of our employees as part of a reform to move up to the next growth stage.

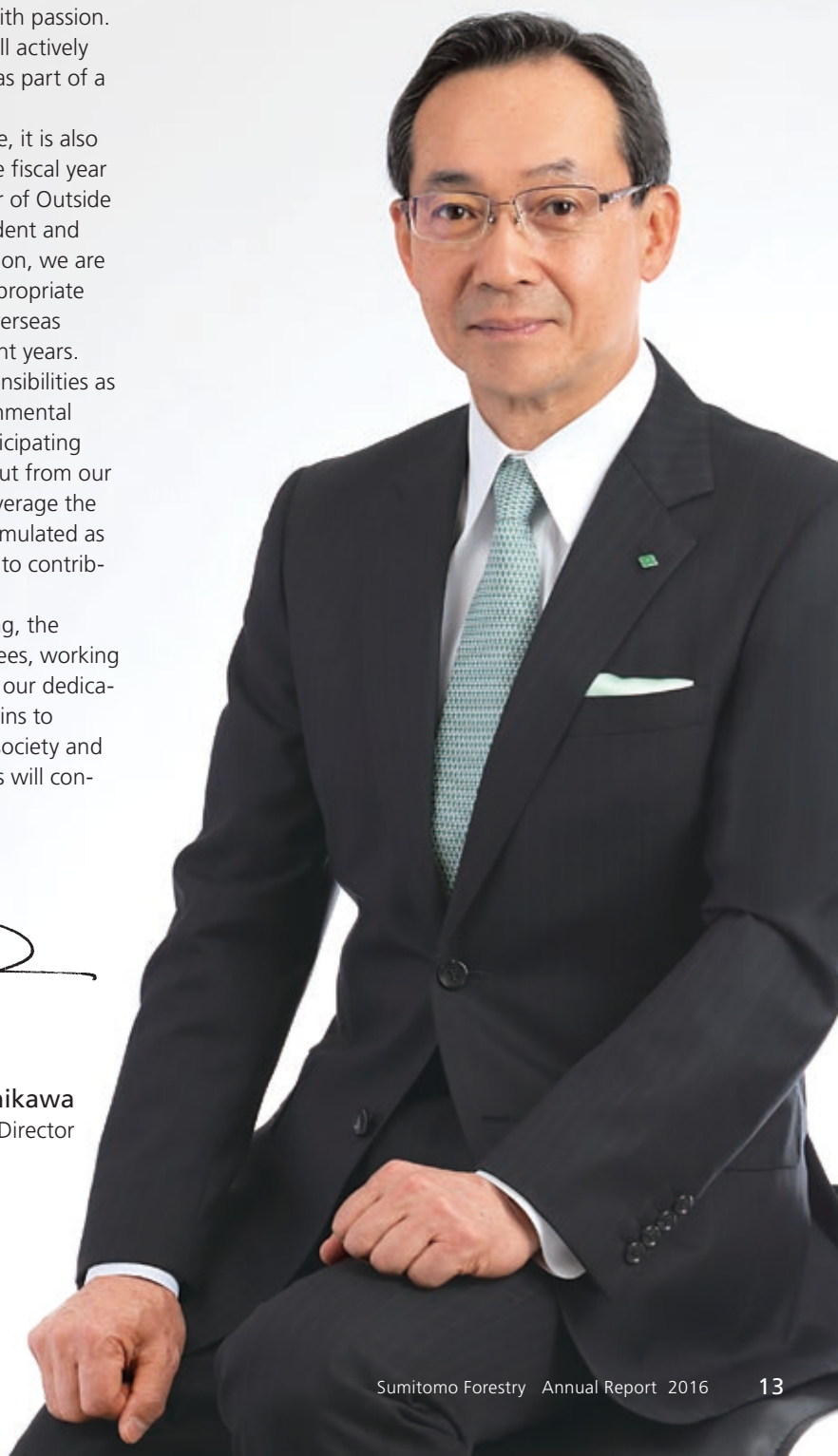
Moreover, to strengthen the management base, it is also important to enhance corporate governance. From the fiscal year ending March 31, 2017, we have increased the number of Outside Directors from one to two. This will enhance independent and objective management supervision functions. In addition, we are striving to strengthen internal control and to apply appropriate risk management not only in Japan, but also in the Overseas Business, which we have continued expanding in recent years.

Furthermore, we also intend to fulfill our responsibilities as a corporate citizen through efforts to promote environmental preservation and legal and regulatory compliance, anticipating changes in the social environment and listening to input from our stakeholders. We will continue these initiatives and leverage the tree-related knowledge and technology we have accumulated as we promote our businesses around the world, aiming to contribute to the creation of affluent societies.

Over the more than 320 years since its founding, the Sumitomo Forestry Group has cultivated forests and trees, working as a corporate group to coexist with nature, based on our dedication to a sustainable philosophy. Today, our goal remains to engage in quality business activities in harmony with society and the environment. We hope that all of our stakeholders will continue to support us in this effort.



Akira Ichikawa
President and Representative Director



Sumitomo Forestry Group 2018 Medium-Term Management Plan

The Three Basic Policies

(For the fiscal years ending March 31, 2017 through March 31, 2019)





Toward a New Growth Stage: Changes at Sumitomo Forestry

The Sumitomo Forestry Group has formulated a new medium-term management plan for the three fiscal years ending in fiscal 2018 (the year ending March 31, 2019). The new medium-term management plan is intended to promote changes needed to achieve sustainable growth, by anticipating new demand even in a maturing society, and by adapting to changes in business conditions with the aim of building a business structure.

During the three years of this plan, we will execute a strategy aligned with the three basic policies that follow. This will include changing the composition of our business by further increasing the ratio represented by the Overseas Business, while also expanding the Renovation Business and the Apartment Business, changing our domestic earnings structure. This will help us work to build a strong business base aimed at a new stage.

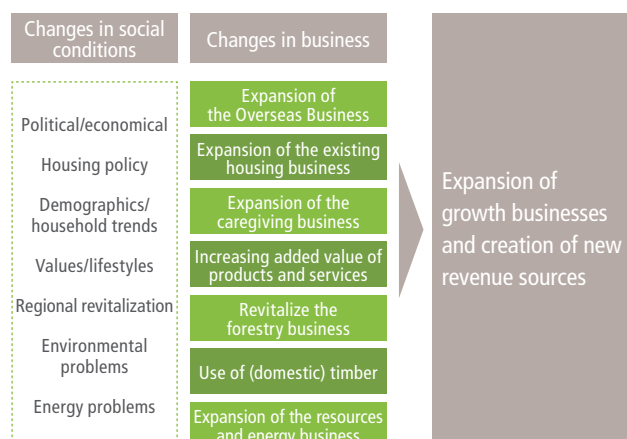
Societal conditions in recent years have given rise to various changes, political and economic as a matter of course, and also in demographics, as the birthrate drops and the population ages, in terms of global environmental problems and even in people's preferences and values. As new issues associated with these changes constantly come to the fore, they also generate new demand connected to solutions. To continue on a path of sustainable growth, we must regard change as an opportunity to expand our business, responding to it rapidly and flexibly.



Sumitomo Forestry Group renovation of a traditional Japanese-style house

Promoting the Use of Wood

A movement is also spreading to revitalize Japan's forestry industry, part of regional revitalization efforts spearheaded primarily by local governments nationwide, that is encouraging the use of mainly Japanese produced timber in a variety of fields. Our Group is thus working not only to provide homes that offer comfortable living spaces, but to expand the use of wood in non-residential buildings as well as the MOCCA (timber solutions) Business. By fully leveraging the knowledge, experience and expertise of wood that we have acquired to date and promoting the use of wood in non-residential buildings such as retail facilities, homes for the elderly and daycare centers, and nursery schools, we will contribute both to the development of wooden buildings and the revitalization of local communities.



Expanding the Renovation Business and the Apartment Business

For example, the domestic new housing market is expected to face increasingly diminished equilibrium. At the same time, however, the demand for renovation in the market for existing homes is expected to expand. Given that promotion of renovations for earthquake resistance and energy savings is an issue in this market, particularly for housing becoming a major issue for society, we view this change in market trends as a clear opportunity, and will continue making investment of management resources in the renovation business a priority. In our apartment business, we have also introduced a new wall frame (WF) construction method that allows for highly versatile spaces, unearthing new demand and aiming to further expand orders. By leveraging use of the original housing technology and expertise we have accumulated in the development of our Housing Business to date, we will continue to lead the market.

Basic Policy

1

Pursuing a strategy that anticipates societal changes

Creating Businesses That Generate Added-Value

As our society continues to age, we aim to expand the business by providing added value and services typical of the Company, utilizing the warmth of wood in our operation of elderly daycare services and elderly care facilities. In renewable energy, another issue on society's radar, we have also positioned the development of new fields such as wind power generation as an important theme, in addition to the wood biomass power generation business we have already commercialized. Looking ahead, we will maintain a firm grasp on changes in customer values and lifestyles as well as on society's needs, maximizing Group management resources as we ourselves change to expand our business range and aim for sustainable growth.

Basic Policy

2

Diversifying revenue sources in the global market

Overseas Manufacturing Business

Overseas Housing and Real Estate Business

Resource-related business

Acquisition of New Zealand timberland, etc.

Housing-related business

Entry into the landscaping business and apartment businesses

Timber and building materials distribution business

Singapore consolidation, development of markets in emerging countries

With an increasingly active global movement toward environmental preservation and the effective use of resources, forests and trees are playing an ever greater role. While the use of wood as a building material continues to evolve, progress is also being made in research into its

Transforming the value of wood

Basic Policy

3

chemical uses. Centered on our Tsukuba Research Institute, the Group already conducts research into the uses of wood as a building material, wood buildings and tissue culture technology. Moving forward, we will focus not only on these existing areas of research, but look into such things as using the wood fiber of cellulose as a material and chemical effectiveness, and will bring a medium- to long-term perspective to developing new uses for wood. As we move ahead to develop new proposals and products, we will enhance the asset value of wood by generating new ways of utilizing this resource, thus creating new value.



A house built by U.S. Group company Dan Ryan Builders Group

The Group has an extensive history and broad network in building its business overseas. We manufacture wood board in Southeast Asia and Oceania and build and sell detached homes, primarily in the United States and Australia. Today, we are working to expand the range of our business into new regions and new fields. By maximizing leverage of them, we will develop a vertically integrated business overseas, just as we have done domestically, encompassing the full range of industries involving wood, from the forestation business on the upstream, to distribution and manufacturing, through to housing-related businesses on the downstream. At the same time, we will work to diversify Group revenue sources by building a horizontal business that ties regions together. In terms of specific segments, our efforts will include acquiring sustainable forest resources and expanding our forestation business in anticipation of growth in demand for timberland and wood, areas of increasing interest driven by environmental problems. In the Overseas Housing and Real Estate Business, we are working as quickly as possible to build a sales structure to support 8,000 new detached housing units in the U.S. and Australia annually, while also aiming to expand our reach into building materials distribution, landscaping and the Apartment Business.



Increased global environmental awareness



Creation of new value for wood



Expansion of business opportunities and social contributions



Mombetsu Biomass Power Station (Hokkaido)

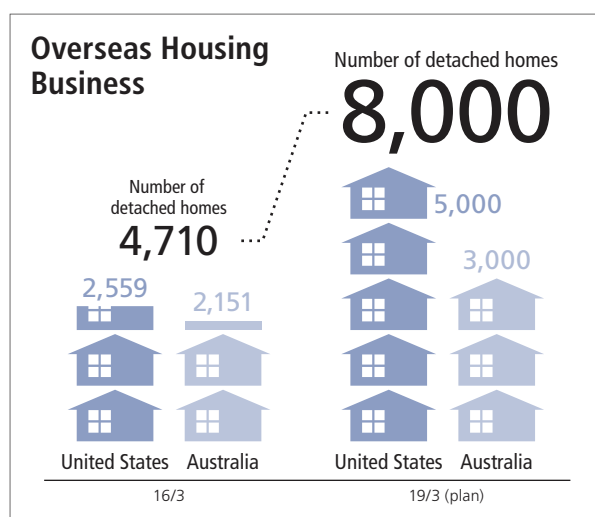
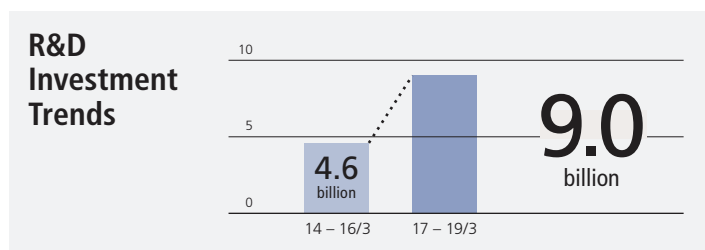
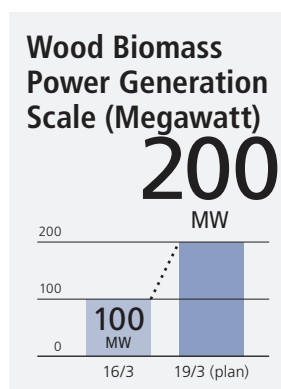
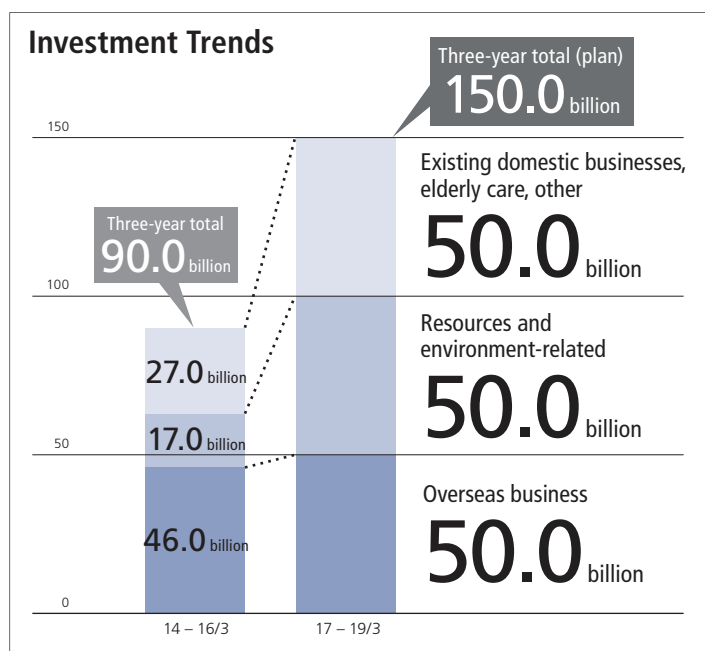
Planning for a Record Level of Investment



To deploy the diverse strategies required to meet the targets laid out in our new medium-term management plan, the Group plans to invest ¥150.0 billion over the next three years, a record level of investment for us. This amount is significantly higher than our depreciation expenses of approximately ¥40.0 billion over that same three-year period. Efforts will focus on diversifying revenue sources by investing ¥50.0 billion each in our resources and energy business and in our Overseas Business, as well as in new projects in the nursing care business and others. Separate

from these investments, we will also double our level of investment in research and development to ¥9.0 billion, as we work to actively develop new research themes intended to draw out the maximum potential of wood.

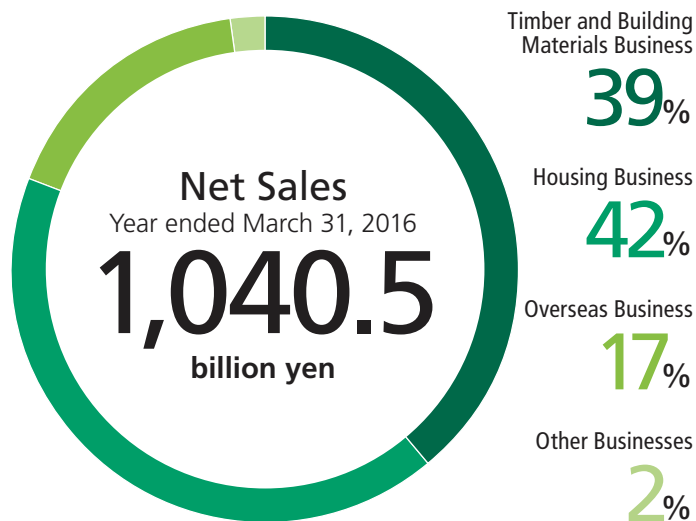
In carrying out each policy of this investment plan, we will advance the policies and execute the strategies required to achieve the goals of our new medium-term management plan.



Tsukuba Research Institute (tissue culture room)

Business Strategies by Segment

Net Sales by Segment*



* Ratios are computed based on net sales by business segment (consolidated net sales less adjustments)

Net Sales and Recurring Income by Segment (Billions of yen)

(Years ended March 31)	2015	2016	2017 (forecast)	2019 (plan)
Net Sales	997.3	1,040.5	1,150.0	1,170.0
Timber and Building Materials Business	423.0	427.0	448.0	420.0
Housing Business	453.9	454.6	481.0	485.0
Overseas Business	147.0	187.9	258.0	294.0
Other Businesses	16.6	16.9	23.5	39.8
Adjustments	(43.3)	(45.8)	(60.5)	(68.8)
Recurring Income	36.4	30.5	48.0	55.0
Timber and Building Materials Business	4.0	3.4	4.5	4.5
Housing Business	28.3	31.5	32.0	33.0
Overseas Business	6.1	13.1	15.5	21.4
Other Businesses	1.2	(1.0)	1.0	3.6
Adjustments	(3.2)	(16.4)	(5.0)	(7.5)

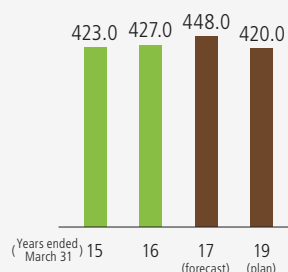
Note: Figures are rounded to the nearest decimal.



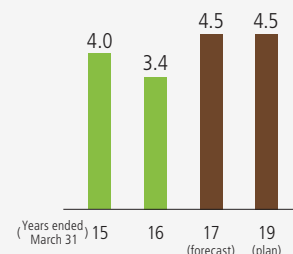
Timber and Building Materials Business

We operate a distribution business that sources high-quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes building materials in Japan.

Net Sales
(Billions of yen)

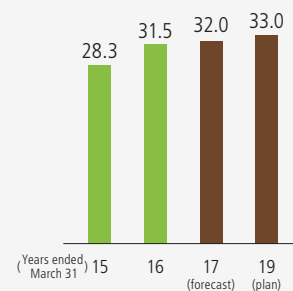
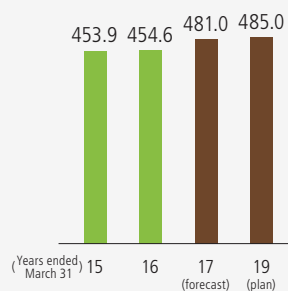


Recurring Income
(Billions of yen)



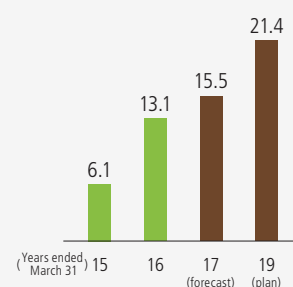
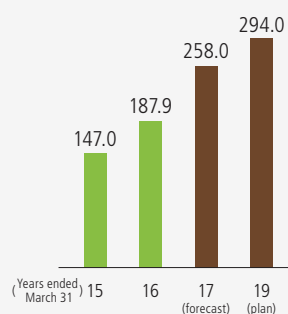
Housing Business

In addition to the Custom-Built Detached Housing Business, we operate a wide range of housing-related businesses. These include the Renovation Business, Apartment Business, Detached Spec Homes Business, Landscaping Business, and Stock Housing Business, as well as real estate brokerage and management and renovation and resale of used houses.



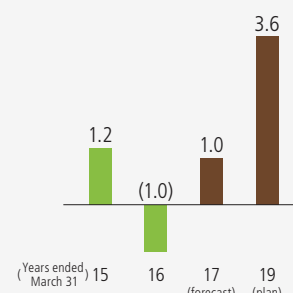
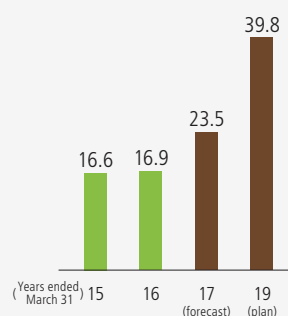
Overseas Business

We operate the manufacturing business, which is engaged in building materials manufacturing business, mainly in the Pacific Rim, including Southeast Asia, Oceania and the United States, and the Housing and Real Estate Business, mainly in the United States and Australia.



Other Businesses

We operate the forestation business, the biomass power generation business, the private care facilities business, the lease business, as well as various service businesses including the insurance agency business for our housing business customers. We also manufacture and sell farming and gardening materials, and develop information systems for each Group company.



Note: Net sales and recurring income for each business include intersegment transactions.

Timber and Building Materials Business

Basic Policy

Building new supply chains overseas and strengthening initiatives in growth markets

The Sumitomo Forestry Group holds the No. 1 share in the domestic timber and building materials distribution markets, based on a sales network and a reputation for reliability built up over many years. Moreover, the Group's greatest strength lies in its procurement capabilities using its global network.

Due to the high volume of trade, this segment's performance is prone to fluctuate with changes in the market environment, such as trends in the number of new housing starts. We therefore aim to diversify the business in order to establish a stable earnings foundation. To this end, we will promote initiatives in new markets, new products, and overseas expansion.

In the domestic distribution business, we will focus on expanding our market share in existing businesses, while strengthening our initiatives on fuel chips, which are seeing increasing demand in line with the spread of biomass power generation. Another focus will be on exports of domestic timber, which is expected to see market expansion, and on expanding sales in non-housing markets (retail facilities, elderly care facilities, and so forth). By developing new customers and launching products to meet market needs in these fields, we will increase added value while strengthening profitability. Meanwhile, in the overseas distribution business, we will form alliances with local Group companies and manufacturing sites in each country and create a distribution system for timber and building materials, including sales of wooden interior building materials, using Singapore as a base for managing operations. In addition, we will build a supply chain by undertaking joint product development with manufacturers, opening new markets, and other steps, as we expand our business overseas.

The wide range of products handled and extensive network involved in our Timber and Building Materials Business supports our Group businesses, which are associated with the housing business. Looking ahead, we will maintain our leading market share in Japan, while advancing into new markets aligned with products and regional characteristics.



Log pond (Indonesia)

Domestic Distribution Business

Building an earnings structure resilient to market fluctuations

In the domestic distribution business, we plan to increase the market share of our existing business and maintain business scale. We will do this while establishing an earnings structure by bolstering our initiatives in growth markets, which are impervious to the impact of fluctuations in



Transporting domestic timber

Fiscal 2015



Share in Japan for timber and building materials: **No.1**

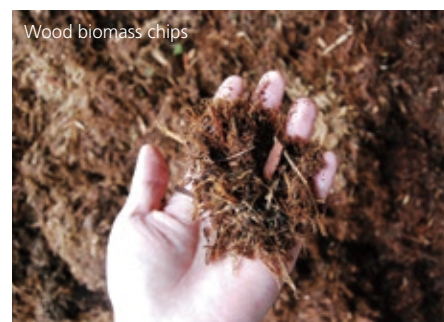
new housing starts.

Specifically, we will expand our procurement and sales of fuel chips and timber for biomass generators in the energy fuel market. Biomass power stations in Japan are increasing both in scale and in number, and there is rising demand for fuel chips and timber for their stable operation. We plan to double our sales from energy-related raw materials from ¥3.3 billion in fiscal 2015 to ¥7.0 billion in fiscal 2018.

In the environment and energy efficiency market, we will respond to the growth in zero-energy house (ZEH), which aim to achieve a net energy balance of zero. Our aim is to capture demand by teaming up with manufacturers of heat insulation materials, sashes, solar power generation equipment, and so forth to jointly propose products and offer support for applying for ZEH.

In addition, we will promote sales expansion in wooden interior materials and so forth for use in the non-housing market, such as retail facilities and elderly care facilities. At the same time, we will address the continually expanding availability of housing stock by developing sales of materials for specialists in renovation and resale of existing homes.

In the domestic timber market, the government has set out to increase the self-sufficiency ratio of timber from its current level of around 31%, and a move towards using timber construction and timber materials in public buildings is expected, along with expansion in exports of domestic timber and other measures. The Group will expand its sales by promoting initiatives to supply these anticipated growth markets with timber.



Wood biomass chips

Overseas
Distribution
Business

Expanding our footprint in the global market through business alliances and M&As

In the overseas distribution business, we provide a stable supply of products to meet the needs of our business partners through overseas bases in Asia and the Pacific Rim. We have also established a structure that can respond flexibly to the increase in demand for timber and building materials in emerging countries.

In fiscal 2015, we established the management division for our overseas distribution business in Singapore. By gathering information there from our network of local subsidiaries throughout Asia, we will execute an efficient market strategy. Furthermore, in September 2015, we concluded a capital and business alliance with a local manufacturer in India. We will assist this manufacturer in setting up a manufacturing line for building fixtures (doors and door frames) and build a base for building material sales in India.

Looking ahead, we will step up our efforts to expand our overseas footprint. We will aim to expand our business to other overseas markets after India, using capital and business alliances and M&As with companies that have outstanding manufacturing technologies and robust sales networks.

A view of the factory of alliance partner Spacewood Furnishers Pvt. Ltd. (India)



Housing Business

Grand Estate Design Project The Tachikawa Model Home (Tokyo)

Basic Policy

Discern environmental changes in the market and expand the earnings base

The Group entered the housing business in 1975, making use of the knowledge and expertise in handling wood it had cultivated through its Forestry and Timber and Building Materials Businesses. As the domestic housing market grew and housing developed into Sumitomo Forestry's mainstay business, the Group expanded from custom-built detached houses to other fields, including the Renovation and Apartment businesses. In the Custom-Built Detached Housing Business, we will continue to offer high-value-added products and services, while also moving ahead with business reforms, working to improve profitability and increase market share even in the midst of changing market conditions. We will also concentrate corporate resources in the Renovation and Apartment businesses, which are expected to grow, and will focus on expanding those businesses. Further, we will work to enhance synergies across a broad range of housing-related businesses, including the Real Estate Brokerage, Management, Landscaping, and MOCCA (timber solutions) businesses, to further reinforce our overall earnings structure.



Grand Estate Design Project
The Tachikawa Model Home (Tokyo)

Green Smart – a house for people and the environment using the appeal of wood



Custom-Built Detached Housing Business

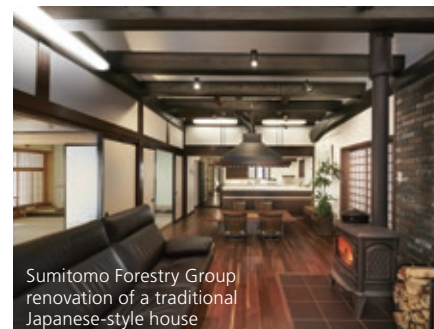
Pursuing high-value-added products and services to strengthen earnings potential

In the Custom-Built Detached Housing Business, we will work on optimizing human resource allocation according to market conditions in each area, renovating and eliminating some model homes as well as creating new ones, while moving forward with product development. In sales, we will expand sales of our own Big-Frame (BF) construction method, which offers superior earthquake resistance and the ability to create large spaces, and nationwide, we will promote proposals for zero energy house (ZEH) specifications for homes with environmentally sound equipment. We also aim to strengthen our earnings potential by providing high-value-added products and services, including expanded sales of BF-Fireproof products, which enable multistory urban construction, and further progress with our Grand Estate Design Project, which offers high-quality residences with superior design.

Housing Stock Business

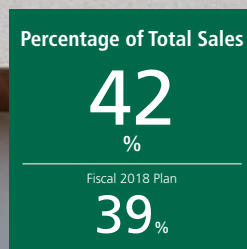
Responding to diverse market needs by leveraging advanced technological capabilities

In the Renovation Business, we seek to differentiate ourselves from competitors and expand our business while responding to the diverse needs of the market by utilizing the technical capabilities cultivated in the Custom-Built Detached Housing Business. Our proprietary technology for enhancing building earthquake resistance and durability improves the performance of structures, including those constructed by other companies, and can also be used in renovating traditional Japanese homes*,



Sumitomo Forestry Group
renovation of a traditional
Japanese-style house

Fiscal 2015



Custom-built detached houses sold (cumulative total): Approx. **280,000** units

enabling future generations to continue living in their ancestral homes. Looking ahead, we will continue to bolster human resources to strengthen our sales organization, and pursue synergies with the Custom-Built Detached Housing Business, such as holding joint consultation events for new-construction custom-built detached housing and renovation. Using these methods to expand orders, we aim to reach sales of ¥84.0 billion in three years, and then move on to quickly reach ¥100.0 billion in sales. We are also working to expand our Renovation Business, which focuses on utilizing existing housing stock, selling existing condominiums and other structures after first improving their performance and value. We will use Sumitomo Forestry's proprietary designs and original materials to capture demand in this market.

* The Sumitomo Forestry Group's definition of a traditional Japanese-style house is a house built before the current Building Standards Law came into effect in 1950.

Forestia Kamikitazawa
(Renovation project)



Apartment Business

Strengthening sales and proposal capabilities and promoting business scale expansion

In the Apartment Business, demand is increasing for rental housing and housing with combined rental housing with the revision of the inheritance tax regulations and needs for asset utilization. To respond to these needs, we have established rental housing sales teams at all of our Custom-Built Detached Housing business locations, and will work to expand this business. In addition to launching products that comply with urban fire resistance standards, we have developed a wall frame (WF) construction method that allows for highly versatile spaces utilizing technology cultivated in our Custom-Built Detached Housing Business. We will continue to accelerate growth by strengthening our proposals for products that are tailored to the characteristics and needs of specific regions to make them the preferred choice of tenants.

MOCCA (timber solutions) Business

Utilizing domestic timber to create spaces alive with the appeal of wood

As the national policy to encourage expanded production and use of wood gains greater attention, we are working through our MOCCA (timber solutions) Business to further promote the wider use of domestic wood resources in non-housing structures and interiors, such as commercial, education and welfare facilities. We are steadily building a track record with recent projects including the construction of wooden school buildings at an elementary school in Higashimatsushima, Miyagi Prefecture and a guide dog training center. Looking ahead, we will bolster our sales and on-site management capabilities and work to accumulate technology and expertise through cooperation with major design firms and general contractors with the aim of expanding our business in medium- and large-scale construction projects. The MOCCA (timber solutions) Business will contribute to the use of wood in non-housing structures and interiors, thereby handing down the culture of wood, reinvigorating Japan's forestry industry through the use of domestic timber and contributing to the creation of regional employment opportunities.



Interior of the guide dog training center

Overseas Business

MAINVUE
HOMES
VILLAGE PARK
ALLEN ISD



MainVue Homes LLC construction site (United States)

Basic Policy

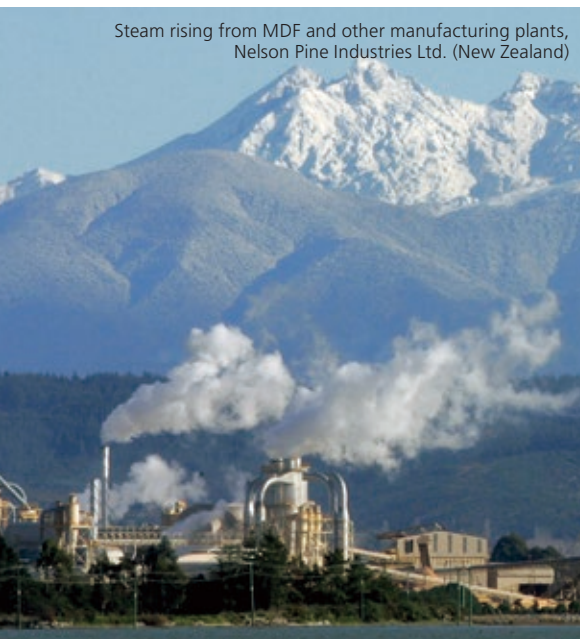
As a growth business, focusing on cultivating existing businesses while developing new ones

The Group has been actively investing management resources in the Overseas Business, with the aim of nurturing it into one of our mainstay businesses that make a major contribution to us in terms of earnings. In the Overseas Manufacturing Business, we have been advancing development of manufacturing technology for high-quality products, expanding production and sales of wooden building materials mainly in the Pacific Rim, including Southeast Asia and Oceania. In the Overseas Housing and Real Estate Business, we have expanded the scale and regional scope of business in the United States and Australia, with a significant increase in the number of houses sold thanks to business growth and the effects of M&As amid a recovery in the U.S. and Australian housing markets. The Overseas Business has now grown to play a role in the Group's earnings portfolio, and by conducting multi-faceted business activities, including real estate development business, we aim to further expand our areas of business and improve profitability.



A house built by Dan Ryan Builders Group (DRB) (United States)

Steam rising from MDF and other manufacturing plants, Nelson Pine Industries Ltd. (New Zealand)

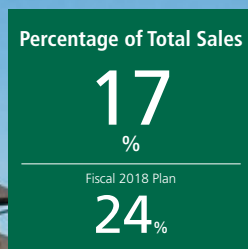


Overseas Manufacturing Business

Improving earnings through the manufacture of high-value-added products and a strengthened sales structure

Our overseas manufacturing business started in 1970 with a plywood manufacturing business at a subsidiary in Indonesia. We produce a wide variety of wooden building materials for global distribution at our sites along the Pacific Rim including New Zealand, Australia and Vietnam. Throughout our history stretching back over 40 years, we have developed high-quality, competitive products to meet various needs. We have also managed to overcome various challenges one-by-one as we operated our business, such as obtaining cooperation from local residents in raw materials procurement. We will continue to distinguish ourselves from the competition by developing and selling high-value-added products and making further advances in production efficiency.

Fiscal 2015



Number of homes sold overseas in fiscal 2015: Approx. **4,700** units

Going forward, we will advance the production and development of products with even higher added value in regions where economic growth is anticipated, and where the market for wooden building materials is expected to grow. In addition to the raw materials we have used to date, we will also make use of plantation timber produced by us. We will also aim to maximize earnings for affiliate companies in each region by developing and manufacturing original, cost-competitive products that meet the needs of growth markets, and by expanding sales through subsidiary companies and supplying materials to our Housing and Real Estate businesses. In addition, we will continue to focus on demand in emerging countries by providing high-quality products and by operating businesses rooted in local communities, fulfilling our responsibility as a global provider of timber and building materials.



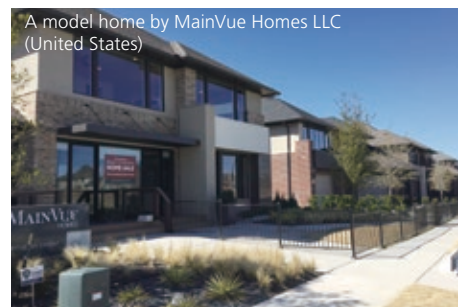
Overseas
Housing and
Real Estate
Business

Expanding business in regions where growth is expected

In the Overseas Housing and Real Estate Business, we have recently been expanding the scale of our business through M&As and other measures, especially in the United States and Australia, where there are markets for wooden housing, significantly increasing both the number of houses sold and our profits. With the goal of becoming one of the top builders in the U.S. and Australia, we are putting in place a sales structure targeting sales of 5,000 homes in the U.S. and 3,000 in Australia. To ensure we achieve that goal, we are working to strengthen the profitability of companies that are new to the Group while making organic growth a top priority for existing businesses. We will also continue to consider expansion into new regions, including possible expansion through M&A deals.

We are also working to build a multifaceted business portfolio in areas of future growth. Specifically, we are focusing on stable growth in our established real estate development business in Australia, while aiming to enter the real estate leasing business and the landscaping business. At the same time, we will build a business model for the Housing and Real Estate Business in Southeast Asia, moving into this market while being mindful of the need to hedge risks through geographic distribution. We will emphasize speed in aggressively moving forward with these new businesses and deals, and work to ensure they quickly contribute to maximizing earnings by strengthening collaboration with our existing businesses.

A model home by MainVue Homes LLC
(United States)



Other Businesses

Forestation business (Papua New Guinea)

Fiscal 2015

Sales

16.9
billion yen

Fiscal 2018 Plan

39.8 billion yen

Recurring Income

-1.0
billion yen

Fiscal 2018 Plan

3.6 billion yen

Percentage of Total Sales

2
%

Fiscal 2018 Plan

3%

The area of forest
owned in Japan:Approx. 1/900 of
Japan's
land area

Forestry and Environment- Related Business

Development of sustainable, effective forest management and environmental energy business

The Group owns approximately 46 thousand hectares of forests in Japan, and the cumulative expertise in sustainable forestry we have gained through management of our Company-owned forests is utilized in our business. We contribute to the revitalization of domestic forestry and regional communities by providing consulting related to forestry management, working to expand production of saplings for forestation, which are in short supply nationwide, and in other ways. Overseas, we recently acquired about 31 thousand hectares of timberland in New Zealand, where we will promote an eco-friendly forestation business. In the environment and energy field, we work to improve the resource value of forests through our efforts in the wood biomass power generation business, where we utilize unused wood and forest residue while contributing to regional revitalization through the creation of employment.

* In this report, the Group's domestic forestry business, which is included in Adjustments in the Financial Section, is described within the Other Businesses section.



Sapling cultivation site (Miyazaki)

Kawasaki Biomass Power Plant
(Kanagawa)

Lifestyle Services Business

Expanding into a wide range of lifestyle-related businesses, including elderly care services

In the Lifestyle Services Business, we are working to respond flexibly to changes in the social structure and people's values. We are utilizing the Group's customer base to develop lifestyle-related businesses, elderly care services and other service businesses that support people's daily lives from a variety of perspectives. In elderly care services, we have opened private elderly care facilities that utilize ICT, and are working to provide services that contribute to safer, richer lives. We have also begun offering new adult day care and other elderly care businesses, and continue working to further improve our services. In addition, the Sumitomo Forestry Group engages in a wide range of services primarily for our Housing Business customers, including a non-life insurance agency, as well as the manufacture and sales of farming and gardening supplies. We also plan to expand into a diverse range of other lifestyle-related services targeting active seniors.



Day Forest Mizonokuchi (Elderly care day care service facility)

Sustainability

This Annual Report provides, in digest form, a description of some of Sumitomo Forestry Group's key activities with regard to social responsibility. For more information on these activities and related performance data, please refer to the CSR report on our website.

Sumitomo Forest Group's website  <http://sfc.jp/english/>

Promoting Sustainable Businesses

The corporate philosophy of Sumitomo Forestry Group is to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services. In order to realize this philosophy, we are implementing sustainable forest management, promoting the use of timber from certified forests, plantation forests and domestic timber, and providing homes with low-environmental impact. We will continue to implement sustainable initiatives in all our business fields in order to contribute to addressing issues confronting the global environment and society.

To maximize the capabilities of our human resources, our most valuable corporate resource, we are also proactive in recognizing the diversity of our individual employees and in creating an open and inclusive corporate culture.



Company-owned Forest (Shikoku)

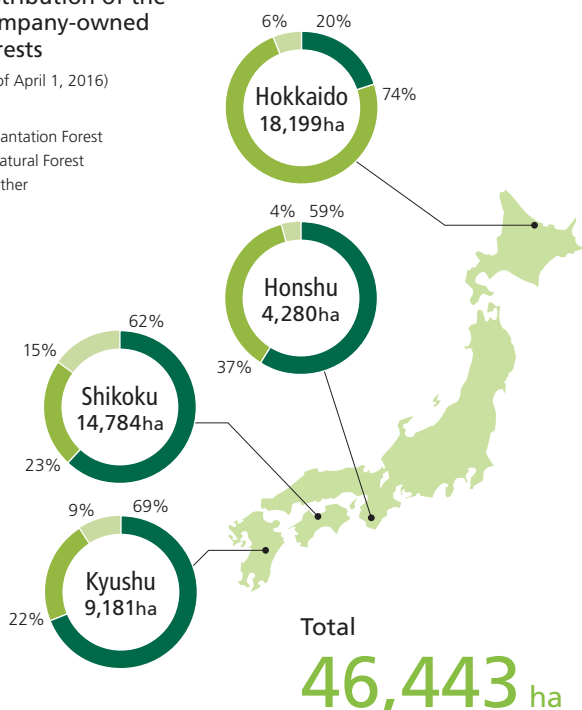
Continuing to Procure Timber and Resources with Respect for Sustainability and Biodiversity

The Sumitomo Forestry Group promotes eco-friendly, sustainable forest management in Japan and overseas to preserve the diverse functions of forests in serving the public good, while enabling the perpetual use of timber resources. Furthermore, given the increasing diversity and sophistication of society's expectations regarding procurement, and based on our Timber Procurement Policy as revised in July, 2015, we are promoting the procurement of timber from verifiably legal and appropriately managed forests. Increasingly, we are also handling timber from certified forests and plantation forests, as well as domestic timber.

Distribution of the Company-owned Forests

(As of April 1, 2016)

■ Plantation Forest
■ Natural Forest
■ Other



Managing Company-owned Forests to Maintain and Expand Timber Resources

Forests occupy about 70% of Japan's total land mass, making it one of the world's leading forest powers. The Group owns a total of 46,443 hectares of forest in Japan as of April 1, 2016, corresponding to about 1/900th of the land area of Japan. These vast Company-owned forests are managed appropriately based on our forest management plan, which is reformulated every five years.

Our Company-owned forests in Japan are divided into two categories: "economic forests" with timber production prioritized and "environmental forests" where environmental protection is the main priority. In order to confirm our forests are being appropriately managed, including as regards maintaining biodiversity, in 2006 we acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)*¹ for all Sumitomo Forestry-owned forests*². Part of our forestry practice involves taking into account associated concerns such as ecosystems to maintain and expand forestry resources, so we are thinning forests where appropriate.

Making use of our knowhow developed through management of Company-owned forests, we also provide forestry management consulting services as regards maintaining and expanding timber resources.

*1. Japan's own forestry certification system through which forest management is verified as sustainable by third parties. From July 2016, this has been mutually recognized under the Programme for the Endorsement of Forest Certification, an international forestry certification system.

*2. Excludes the land held under lease by Kawanokita Development Co., Ltd., a Group company, which manages a golf course.

Area of Plantation Forestry Owned and Managed Overseas

(as of June 30, 2016)

Indonesia

Approx. **160,000** ha

Papua New Guinea

Approx. **31,000** ha

New Zealand

Approx. **36,000** ha

Sustainable Plantation Forestry Overseas

Overseas, in Indonesia and Papua New Guinea, the Group is also conducting industrial plantation forestry to supply plantation timber as a raw material for wood building materials and wood chip, and conducting environmental plantation forestry, including planting trees with the goal of environmental preservation. Additionally, with our 2016 purchase of timberland assets in New Zealand, the group added 30,000 hectares to the plantation forest area it manages overseas, which has reached approx. 230,000 hectares. Through our proactive plantation forest operations, we are working to preserve the world's forests, which continue to shrink in the face of illegal logging and slash-and-burn agriculture, and to contribute to regional economies.

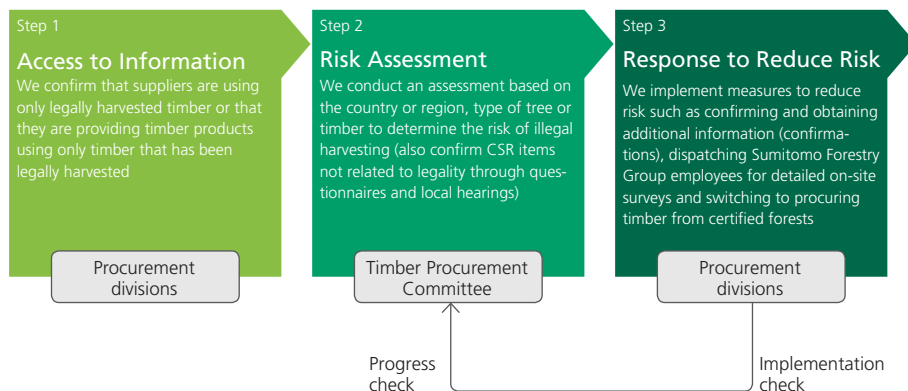


Measurements being taken at a forest in Indonesia

Ensuring the Traceability and Legality of Timber

To prevent the disappearance and degradation of forests, legal frameworks are being created around the world to eliminate illegal logging. To promote sustainable timber procurement, the Group checks that the timber the Group handles has been appropriately managed and harvested in compliance with the laws of each country and region, based on documentation submitted by the suppliers that confirms the legality of the timber, and through on-site inspections conducted by the Company's overseas representatives. In fiscal 2015, the Timber Procurement Committee conducted three legality confirmation reviews. As a company whose business centers on trees, a renewable resource, we continue working with our suppliers to promote the creation of a reliable supply chain.

System of Timber Procurement Due Diligence



Volume of Domestic Timber Exported

(Fiscal 2015)

103,000 m³

(Fiscal 2014)

↑ **72,000** m³

Promoting the Use of Timber from Certified Forests, Plantation Forests and Domestic Forests

The Sumitomo Forestry Group is working to expand its use of timber from certified sustainable forests, from plantation forests that are systematically planted and logged, and domestic timber that contributes to the revitalization of Japan's forestry industry, positioning these as sources of sustainable timber.



Domestic timber

Volume of Unused Wood in Domestic Timber

(Fiscal 2015 results)

119,000 t

↑ (Fiscal 2014)

90,000 t

Exports of Domestic Timber

Although timber consumption in Japan is trending downward, economic expansion and population increases in China and other emerging countries is expected to lead to increased demand for timber overseas. Under these circumstances, exports of timber from Japan have risen in recent years, and the Sumitomo Forestry Group is working to expand its export volume.

Promoting Use of Unused Wood Left in Forest Areas

The increased use of forest residue and other unused wood, which had previously been underutilized, is helping to reinvigorate the forestry industry in Japan while also maintaining and improving the benefits that forests provide. Unused wood handled in fiscal 2015 was 119,000 tons, collected for use as wood chip to fuel the Group's wood biomass power plant in Mombetsu, Hokkaido. There is also an increasing volume of wood chip used for fuel and increasing demand for recycling of timber resources through wood chipping. The wood chip used by the Sumitomo Forestry Group as fuel in the wood biomass power plant includes recycled chips from wood found in construction waste and wood chips made from unused timber, and not only contributes to curbing the CO₂ emissions which lead to global warming, but also to the effective use of timber and the reinvigoration of the regional forestry industry.

Promoting Reduction of Environmental Impact in Business

As the global impact of climate change grows more serious, companies are being asked to reduce their emissions of greenhouse gases as a means of combating global warming. The Group is undertaking a variety of initiatives through its business activities to help stem global warming. These include greenhouse gas emission reduction during housing construction and manufacture of building materials, and promotion of our Biomass Power Generation Business. We also promote the curbing, reuse and recycling of industrial waste.

Carbon stock (from timber used in new custom-built detached housing constructed in Japan)*

(Fiscal 2015)

175,000 t-CO₂

↑ (Fiscal 2014)

198,000 t-CO₂

* Sumitomo Forestry homes fix about 22.6 t-CO₂ per unit.

Expanding Carbon Stock

Carbon stock is the volume of CO₂ that is absorbed by trees and fixed as carbon. The Group is working to expand the carbon stock through the management of Company-owned forests in Japan and through overseas plantation forestry. The Group also helps counter global warming by increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the wider application of timber resources in non-housing structures.

As a result of these efforts, in fiscal 2015 the Group's carbon stock from Company-owned forests in Japan rose to 12.40 million t-CO₂, and to 3.06 million t-CO₂ from plantation forests overseas.

The Sumitomo Forestry Group's Carbon Stock (Fiscal 2015)

Company-owned forests in Japan:	12.40 million t-CO ₂ (12.19 million t-CO ₂ in previous year)
Plantation forests overseas:	3.06 million t-CO ₂ (4.54 million t-CO ₂ in previous year)

Installation rate* (environmentally sound equipment in custom-built detached homes)

(Fiscal 2015)

58%

↑ (Fiscal 2014)

66%

* Installation rate of solar power system and/or ENE-FARM fuel cell system in Sumitomo Forestry homes (orders received basis).

Promotion of "Green Smart" Houses

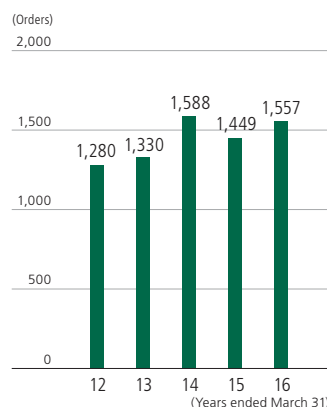
We have always used trees, which absorb and store CO₂ in the process of growth, as our primary structural material, and by also incorporating our "Ryouonbou" natural heating and cooling design method, which takes advantage of natural ventilation and sunlight, we have worked to provide homes that offer comfortable living throughout the year. To enhance energy efficiency in the home, thereby reducing household CO₂ emissions, we propose Green Smart houses that combine this design with our expertise in utilizing the special characteristics and natural charms of wood, along with improved insulating performance and other technology for reducing energy consumption. In addition, we use equipment for creating and storing energy that enable energy to be used more intelligently. With Japanese homes

emitting more CO₂ every year, the Sumitomo Forestry Group is offering new homes built based on Green Smart, which utilizes the properties of wood and other natural materials, while enhancing insulation performance and installing solar power generation systems to accelerating the popularity of net Zero Energy House (ZEH), which consume net zero annual primary energy.

Life Cycle Carbon Minus (LCCM) Housing

Sumitomo Forestry continues working to develop Life Cycle Carbon Minus (LCCM) housing, which produces a net negative volume of CO₂ emissions over its entire life cycle, from construction to use, renovation, demolition and disposal. This is accomplished through the use of solar power systems and environmentally sound equipment. In fiscal 2015, we moved ahead with research and development related to living environments, not only in terms of energy reduction, but also from the perspective of health and comfort. We will continue our efforts to develop new technology toward the realization of LCCM housing.

Number of orders for energy-saving and eco-friendly renovations



Offering Energy-Saving, Eco-Friendly Renovations

Our subsidiary Sumitomo Forestry Home Tech Co., Ltd. specializes in renovations. It promotes energy-saving and eco-friendly renovations, receiving over 1,000 orders every year. When planning a renovation, the company creates a performance evaluation chart to enable easily understandable “visualization” of the enhanced performance provided by earthquake resistance technology, energy saving equipment, and modifications for universal access, as well as other improvements. The company will continue offering renovations that will reduce the environmental footprint over the lifetime of the residence, and aims to realize energy saving through renovations.

Biomass Power Generation

The Sumitomo Forestry Group engages in biomass power generation, primarily using as fuel previously unused timber resources and recycled wood chips from construction waste. The volume of CO₂ released by combustion of timber is equivalent to that of atmospheric CO₂ absorbed through photosynthesis. Therefore, atmospheric CO₂ does not increase throughout a tree’s total life cycle. For this reason, the Group is developing biomass power generation as a new business that makes effective use of timber and reduces CO₂ emissions. The Group’s domestic biomass power business includes the already operating Kawasaki plant and additional plants under construction in Mombetsu, Tomakomai and Hachinohe. We will continue to develop business using renewable energy in a way that best serves the interests of each region.

Creating an Environment that Encourages the Active Participation of People of Diverse Backgrounds

Based the Group’s Action Guidelines, which call for respect for humanity under which we work to create an open and inclusive corporate cultures that values diversity, we are engaged in a global effort to establish and manage human resources programs, ensure the appropriate, efficient allocation of human resources, and develop and nurture those resources, as well as shape our employees into groups that approach their work with a positive attitude and a willingness to take on challenges. We also actively promote work-life balance by creating workplaces that support the personal and professional lives of our employees.

Employment (Sumitomo Forestry Co., Ltd. non-consolidated, as of March 31, 2016 and 2015)

Figures in parentheses are for last fiscal year

Management level:	1,995	(2,047)
Non-management level:	2,292	(2,297)
Contract employees and part time staff:	98	(125)
Secondment from other companies:	32	(30)
Average length of service:		
Men	15 years and 3 months	(15 years and 5 months)
Women	11 years and 1 months	(11 years and 0 months)

Ratio of female employees (includes contract employees):*	19.9%	(19.2%)
Ratio of newly hired female university graduates:	22.8%	(26.8%)
Ratio of employees with disabilities:	2.1%	(2.2%)

* Calculated based on the number of employees on April 1, 2016.

Percentage of Women in Management Positions

(As of April 1, 2016)

2.8%

↑ (April 1, 2015)
2.6%



Training at the Sumitomo Forestry School of Professional Building Techniques

Promoting Employee Diversity

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion or disability, and advancing maintenance of a workplace in which highly motivated employees can display their abilities. We are conducting initiatives aimed at providing opportunities for female employees by working to enhance our childcare and training programs and promoting their utilization.

Initiatives towards Empowering Women

The Group has formulated the Sumitomo Forestry Group's Declaration on Empowering Women. Its three provisions call for 1. Creating a positive work environment for women; 2. Leveraging women's unique creative powers; and 3. Spurring innovation through the participation of women. Under this Declaration, the Group is working to promote women's active participation in the workplace. We have also set numerical targets for appointment of women to managerial posts to foster the further participation of female employees. We are now working toward our publicly announced goal of increasing the proportion of female managers to more than 5% by 2020 (2.8% as of April 1, 2016).

Initiatives to Encourage a Better Work-Life Balance

Among the Group's values and ideals, we speak of what we consider important, among which is "Respect for Families: We maintain respect for ourselves and our families, and strive to build an abundantly rewarding future." Recognizing the importance of work-style diversity, Sumitomo Forestry has taken the initiative in arranging child care and nursing leave programs, as well as reducing overtime, with the aim of creating a fulfilling workplace and ensuring a rich family life. We have established the Workstyle Diversification Department within the Personnel Department, where employees can find a comprehensive career support desk dedicated to such matters as childcare, nursing, career development, mental health and reemployment after retirement, and we have also put systems in place such as assigning employees with qualifications as clinical psychologists.

Human Resources Development

Developing a Human Resources Development Structure

In an effort to strengthen the Sumitomo Forestry Group's development of human resources, since fiscal 2011 the Group has worked to establish the Sumitomo Forestry Business Institute as a common Group platform for human resources development. Working under the theme of "Supporting Motivated People" since its establishment, the Institute has shifted its emphasis from across-the-board hierarchical training, to more self-development directed, selective training, which puts a greater focus on developing capabilities through personal initiative.

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques was established in 1988 as an in-house training center to pass down the traditional Japanese wooden post-and-beam construction method to future generations. To master carpentry skills, trainees, who are mainly new employees at Sumitomo Forestry Home Engineering Co., Ltd., learn for a year at the school. This training starts with lectures and continues with practical training on the use and maintenance of tools, ink-marking and other traditional techniques, material handling, and safety. In fiscal 2015, 64 individuals were accepted for enrolment, including employees of partner companies, and 57 graduated, and at the start of fiscal 2016, the school welcomed 64 new trainees.

Governance

For detailed information about corporate governance, please refer to the Corporate Governance Report published on our website.

Sumitomo Forest Group's website  <http://sfc.jp/english/>

Board of Directors and Statutory Auditors

(as of June 24, 2016)

Directors



Toshiro Mitsuyoshi Director

Apr. 1985
Joined the Company
Jun. 2010
Executive Officer
Apr. 2011
Managing Executive Officer
(current position)
Divisional Manager of Overseas Business
Division
Apr. 2014
Deputy Divisional Manager of Housing
Division
Jun. 2014
Director (current position)
Apr. 2015
President and Representative Director of
Sumitomo Forestry Home Tech Co., Ltd.
(current position)

Tatsuru Satoh Director

Apr. 1978
Joined the Company
Apr. 2011
General Manager of Personnel Department
Apr. 2012
General Manager of General Administration
Department
Jun. 2012
Executive Officer
Apr. 2013
Managing Executive Officer
Jun. 2013
Director (current position)
Apr. 2016
Senior Managing Executive Officer
(current position)

Junko Hirakawa Director**

Apr. 1973
Licensed as an attorney-at-law admitted in
Japan
Feb. 1979
Licensed as an attorney-at-law admitted in
the State of New York, U.S.A.
Oct. 1983
Partner of Yuasa and Hara
Jul. 1997
Founding Partner of Hirakawa, Sato &
Kobayashi (currently City-Yuwa Partners)
Feb. 2003
Partner of City-Yuwa Partners (current
position)
Jun. 2011
Outside Director of Tokyo Financial
Exchange Inc. (current position)
Jun. 2012
Outside Statutory Auditor of the Company
Jun. 2014
Outside Director of the Company
(current position)
Jun. 2015
Outside Director of Hitachi Construction
Machinery Co., Ltd.
(current position)

Shigeru Sasabe Director*

Apr. 1977
Joined the Company
Jun. 2008
Executive Officer
Apr. 2010
Managing Executive Officer
Jun. 2010
Director (current position)
Apr. 2012
Divisional Manager of Lifestyle Service
Division
Apr. 2014
Senior Managing Executive Officer
Divisional Manager of Overseas Business
Division (current position)
Apr. 2016
Representative Director (current position)
Executive Vice President and Executive
Officer (current position)

Ryu Yano Chairman of the Board*

Apr. 1963
Joined the Company
Dec. 1988
Director
Jun. 1992
Managing Director
Jun. 1995
Representative Director (current position)
Senior Managing Director
Apr. 1999
President/Director
Jun. 2002
President and Executive Officer
Apr. 2010
Chairman of the Board (current position)

Statutory Auditors

Hidekazu Tanaka Statutory Auditor

Noriaki Toi Statutory Auditor

Satoshi Teramoto Statutory Auditor*

Katsuhide Kurasaka Statutory Auditor*

Yoshitsugu Minagawa Statutory Auditor*

Executive Officers

Akira Ichikawa President and Executive Officer*

Hitoshi Hayano Executive Vice President and Executive Officer*

Divisional Manager of Environment and Resources
Division (also oversees Lifestyle Service Division)

Shigeru Sasabe Executive Vice President and Executive Officer*

Divisional Manager of Overseas Business Division

Ken Wada Senior Managing Executive Officer*

In charge of Tohoku Reconstruction Support,
Divisional Manager of Housing Division

Tatsuru Satoh Senior Managing Executive Officer*

In charge of Corporate Planning, General
Administration, Personnel, Finance, Information
Systems, Corporate Communications, CSR,
Intellectual Property, Internal Audit, and Tsukuba
Research Institute

Akiyasa Fukuda Managing Executive Officer*

Divisional Manager of Timber and Building
Materials Division

Toshiro Mitsuyoshi Managing Executive Officer*

President and Representative Director of Sumitomo
Forestry Home Tech Co., Ltd.

Kunihiko Takagiri Managing Executive Officer

President and Representative Director of Sumitomo
Forestry Residential Co., Ltd.

Yoshihiro Yoshioka Executive Officer

President and Representative Director of Sumitomo
Forestry Crest Co., Ltd.

* Outside Statutory Auditors

* Doubles as Director and Executive Officer



Akira Ichikawa
President / Director*

Apr. 1978
Joined the Company
Jun. 2007
Executive Officer
Jun. 2008
Director
Managing Executive Officer
Apr. 2010
Representative Director (current position)
President/Director (current position)
President and Executive Officer
(current position)

Hitoshi Hayano
Director*

Apr. 1977
Joined the Company
Jun. 2005
Executive Officer
Apr. 2006
Managing Executive Officer
Jun. 2006
Director
Apr. 2010
Divisional Manager of Housing Division
Apr. 2011
Representative Director (current position)
Senior Managing Executive Officer
Apr. 2014
Executive Vice President and Executive
Officer (current position)
Divisional Manager of Lifestyle Service
Division and Forestry & Environment Division
Apr. 2016
Divisional Manager of Environment and
Resources Division (current position)

Izumi Yamashita
Director**

Jul. 1971
Joined Bank of Japan
Apr. 1998
Director-General of Financial Markets
Department, Bank of Japan
Mar. 2002
General Manager of Financial Marketing
Division, Accenture Japan Ltd
Apr. 2003
Executive Director of Japan Post
Apr. 2005
Deputy Governor of Japan Post
Oct. 2007
President, CEO, Representative Executive
Officer of Japan Post Insurance Co., Ltd.
Jun. 2012
Chairman, Representative Executive Officer
of Japan Post Insurance Co., Ltd.
Jun. 2014
Outside Statutory Auditor of Yokogawa
Electric Corporation (current position)
Jun. 2015
Outside Director (current position) of
AEON Bank, Ltd.
Jun. 2016
Outside Director of the Company
(current position)

Ken Wada
Director

Jul. 1983
Joined the Company
Apr. 2008
Deputy Divisional Manager of
Housing Division
Jun. 2008
Executive Officer
Apr. 2010
Managing Executive Officer
Jun. 2011
Director (current position)
Apr. 2014
Senior Managing Executive Officer
(current position)
Divisional Manager of Housing Division
(current position)

Akihisa Fukuda
Director

Apr. 1981
Joined the Company
Apr. 2009
General Manager of Corporate Planning
Department
Jun. 2010
Executive Officer
Apr. 2011
Managing Executive Officer
(current position)
Jun. 2014
Director (current position)
Oct. 2015
Divisional Manager of Timber and Building
Materials Division (current position)

Ryoji Machino
Executive Officer

Director and Senior Managing Executive Officer of
Sumitomo Forestry Crest Co., Ltd.

Akio Numazaki
Executive Officer

Director and Senior Managing Executive Officer of
Sumitomo Forestry Home Tech Co., Ltd.

Soichiro Kitamura
Executive Officer

Deputy Divisional Manager of Overseas Business
Division, and General Manager of Overseas
Manufacturing Department

Takahisa Higaki
Executive Officer

Divisional Manager of Lifestyle Service Division

Masayuki Tabuse
Executive Officer

Deputy Divisional Manager of Timber and Building
Materials Division

Kanpei Tokunaga
Executive Officer

President and Representative Director of Sumitomo
Forestry Landscaping Co., Ltd.

Junko Saishu
Executive Officer

Deputy Divisional Manager of Housing Division (in
charge of Technology Management, and overseeing
Renovation, MOCCA(Timber Solutions), and
Building Compliance)

Atsushi Kawamura
Executive Officer

Deputy Divisional Manager of Overseas Business
Division, General Manager of Overseas Housing and
Real Estate Department, and President/Director of
SFC Homes LLC

Akira Sekimoto
Executive Officer

Deputy Divisional Manager of Environment and
Resources Division, and General Manager of
Overseas Resources Department

Nobuyuki Katayama
Executive Officer

Director and Senior Managing Executive Officer of
Sumitomo Forestry Home Tech Co., Ltd.

Tatsumi Kawata
Executive Officer

General Manager of Corporate Planning
Department

Corporate Governance

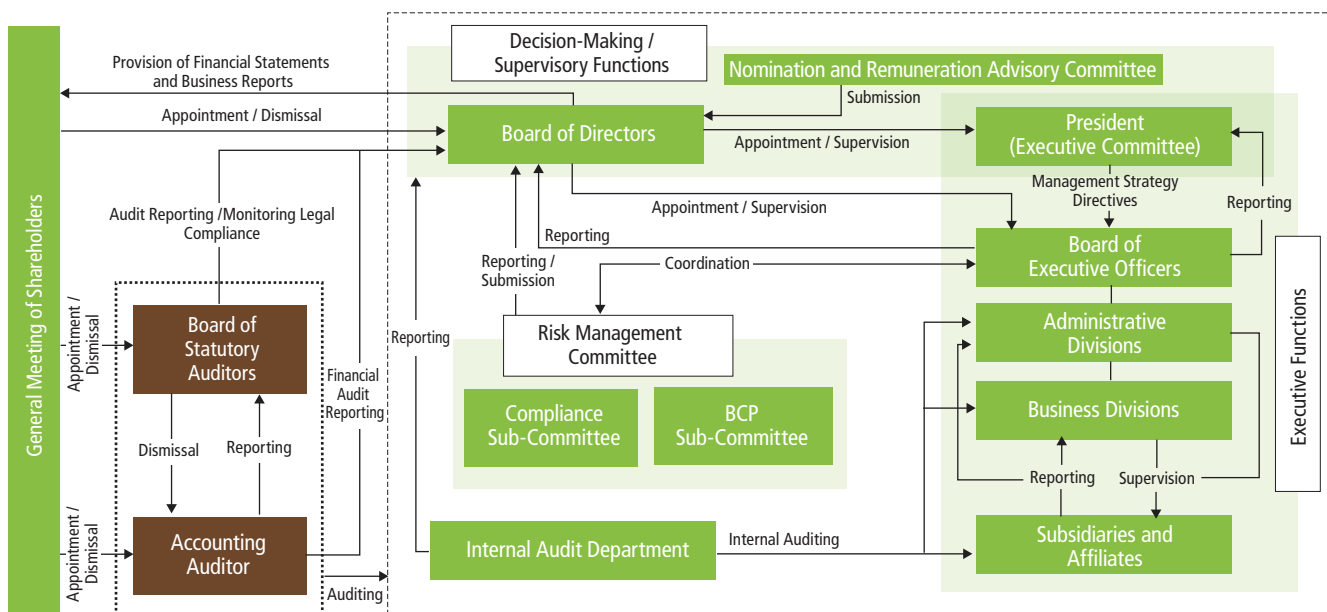
Fundamental Policy

The Sumitomo Forestry Group's corporate philosophy states, "The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services." Under our Action Guidelines, one of which is to "conduct business that is beneficial to society based on the principles of integrity and sound management," we strive to ensure transparency in management, appropriate and lawful business operations, and swift decision-making and business execution. Through these efforts, we are further enhancing corporate governance in order to continuously expand corporate value and live up to the diverse expectations of our stakeholders.

Corporate Governance System

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 10 directors (9 male and 1 female), including 2 Outside Director (1 male and 1 female), and a Board of Statutory Auditors comprising 5 statutory auditors (5 male), including 3 Outside Statutory Auditor. Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from executive functions.

Corporate Governance System



Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues, checking on performance and other matters, and carrying out its supervisory functions. The Executive Committee meeting is held twice a month, in advance of the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2015, the Board of Directors met 16 times and the Executive Committee 23 times.

Statutory Audit System

Each statutory auditor provides oversight for the directors' execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds. As assistants to the statutory auditors, nine auditing inspections, who double as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors meetings and Executive Committee meetings, and are able to

obtain accurate information regarding the management decision-making process at any time. To ensure rigorous audits, the statutory auditors receive regular reports from the accounting auditor as well as the divisions responsible for internal audits, risk management and compliance, accounting, and labor, thereby supervising and verifying that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of duties whenever needed. In addition, the Group Board of Statutory Auditors, composed of the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, convenes regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed by the Executive Committee meeting so that all statutory auditors and Outside Director can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly. This system ensures that the statutory auditors can provide adequate monitoring functions of the directors' execution of duties from the perspective of shareholders. The Board of Statutory Auditors met 14 times during fiscal 2015.

■ Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Committee has been established as an advisory body to the Board of Directors to ensure transparency and fairness when the Board selects director and statutory auditor candidates and executive officers and when it determines remuneration for directors and executive officers. The committee provides opinions when the board is making these decisions. The committee is comprised of the chairman of the board, the president and all of the Outside Officers (two Outside Directors and three Outside Statutory Auditors) so that the majority of members are Outside Officers. One of the Outside Director serves as the Committee chair.

■ Cooperation between Statutory Auditors, Accounting Auditors and the Internal Audit Department

Statutory auditors monitor the independence of the accounting auditor and request and verify opinions from the accounting auditor regarding the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards. When creating audit reports, statutory auditors and the accounting auditor hold meetings and exchange information as necessary to facilitate smooth and effective audits. The Internal Audit Department is in charge of conducting internal audits and collaborates with statutory auditors to audit the appropriateness and lawfulness of daily business operations of the entire Group. Upon completion of an audit, the Internal Audit Department submits audit reports to the president assigned, executive officers and statutory auditors and shares information with them.

Attendance of Outside Officers at Board Meetings (fiscal 2015)

Position and Name	Board of Directors Meetings (convened 16 times)		Board of Statutory Auditors Meetings (convened 14 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa	16	100%	—	—
Statutory Auditor: Satoshi Teramoto	16	100%	14	100%
Statutory Auditor: Shin Nagata	16	100%	13	93%
Statutory Auditor: Katsuhide Kurasaka	15	94%	14	100%

Reasons for Appointment as Outside Director

Name	Reason for appointment
Junko Hirakawa Assumed office in June 2014	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert's perspective.
Izumi Yamashita Assumed office in June, 2016	Since he has abundant experience in the financial industry and deep insight as a business manager, the Company believes that he will be able to play an appropriate role for the enhancement of our corporate governance by, among other things, providing expert recommendations for general management.

Reasons for Appointment as Outside Statutory Auditor

Name	Reason for appointment
Satoshi Teramoto Assumed office in June 2010	As a certified public accountant, he has a high degree of specialized knowledge of and extensive practical experience in finance and accounting, and has been judged capable of conducting appropriate audits of the Company's execution of business.
Katsuhide Kurasaka Assumed office in June 2014	He has rich experience in management of manufacturing workplaces in Japan and overseas in addition to substantial knowledge as a corporate manager, and has been judged capable of conducting objective and appropriate audits of the Company's manufacturing business.
Yoshitsugu Minagawa Assumed office in June 2016	Since he has abundant experience and deep insight on forestry administration as well as the agricultural, forestry and fishing sectors, the Company believes that he will be able to utilize these factors in auditing duties.

■ Appointment of Outside Directors and Outside Statutory Auditors

The Company has appointed two Outside Directors, Junko Hirakawa and Izumi Yamashita. The Company also has appointed three Outside Statutory Auditors, Satoshi Teramoto, Katsuhide Kurasaka and Yoshitsugu Minagawa.

Neither the two Outside Directors nor the three Outside Statutory Auditors have any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

■ Executive Remuneration

Remuneration for directors comprises three types: basic remuneration, which is fixed; bonuses, which are tied to business performance; and stock options.

Basic Remuneration

To ensure a fair level of remuneration according to roles and responsibilities, a set amount is paid out every month for each position within the scope approved at the Ordinary General Meeting of Shareholders (up to ¥40 million per month (including an amount up to ¥5 million per month for Outside Directors)).

Bonuses

The total amount, calculated with consideration of to the level of consolidated recurring income, is approved at the Ordinary General Meeting of Shareholders and a set amount is decided for each position.

Stock Options

Stock acquisition rights as stock-based compensation stock operations are allocated to directors (excluding Outside Director) and executive officers.

Moreover, the amount of remuneration for directors does not include remuneration as employees or compensation for the performance of other duties. At the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration.

Remuneration (fiscal 2015)

(Millions of yen)

		Total remuneration	Total Remuneration by Type		
			Basic remuneration	Stock Option	Bonus
Directors* ¹	(8)	487	331	26	130
Corporate Auditors* ²	(2)	40	40	—	—
Outside Officers	(4)	42	42	—	—

*1 Excluding Outside Directors

*2 Excluding Outside Statutory Auditors

■ System to Ensure Management Transparency

Basic Policy on Disclosure

To increase transparency in management, we actively disclose not only the information required by various laws and regulations but also other items deemed useful to shareholders and investors. Disclosure is done in a swift and fair manner.

Initiatives to Encourage Execution of Voting Rights

The Company sends out notices three weeks prior to the annual General Meeting of Shareholders and avoids dates when many companies hold their annual meetings so that a greater number of shareholders can participate. In addition, shareholders can use the Internet, cell phones and other electronic means to exercise their voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ Co., Ltd.

Disclosure of a Wide Range of Information

On the Company's website, we release a wide range of information related to our IR activities, including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

IR Activities

The Company is enhancing its investor relations (IR) activities to communicate management vision, the state of operations, financial position and other information as needed with shareholders and investors. As a means to directly communicate with shareholders and investors, the Company holds earnings presentations twice a year and telephone conferences twice a year for securities analysts and institutional investors in Japan. For overseas investors, the Company visits locations in Europe, the United States and Asia and holds individual meetings. For individual investors, the Company regularly participates in joint company presentations and IR forums.

Internal Controls System (Risk Management and Compliance)

■ Establishment of Internal Controls System

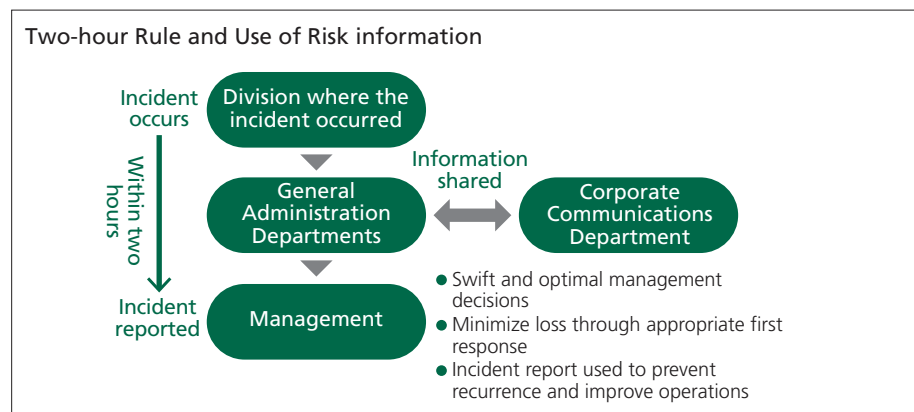
The Company has adopted a basic policy on the establishment of an internal controls system at the Board of Directors' meeting as well as Action Guidelines to embody our corporate philosophy, and a document summarizing the ethical behavior guidelines and values that all officers and employees should follow, entitled "Our Values and Ideals," for the Group and has established a system to secure the soundness in our business in accordance with the Company Act.

■ Risk Management System

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed to the highest authority on risk management for the Sumitomo Forestry Group. The Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer uncovers and analyzes manageable risks in their respective field and formulates action plans. The committee meets regularly once every three months to share and discuss findings and results. Established under the umbrella of the Risk Management Committee, the Compliance Sub-Committee and the Business Continuity Plan (BCP) Sub-Committee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the risk management officers including those of the departments supervising subsidiaries. These sub-committees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business, including the Construction Business Act, and business interruption risks, including large-scale disasters. The results of aforementioned activities are reported to the Board of Directors and undergo management reviews in order to be reflected in business execution. In fiscal 2015, the Risk Management Committee convened four times, the Compliance Sub-Committee twice, and the BCP Sub-Committee five times, and the Board of Directors received reports from them four times.

Rapidly Identifying and Responding to Risk

In addition to the normal reporting hotline, we operate a two-hour rule system designed to rapidly and accurately relay information to the management via the headquarters' Risk Management Department in the event of an emergency situation that may have a serious impact on Company management. This allows us to make swift and optimal management decisions and take immediate action so as to avoid or contain losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same disaster and improve business operation. When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.



Compliance Promotion System

The Compliance Sub-Committee under the Risk Management Committee responds to compliance risk across the Group. The sub-committee is comprised of the general manager of the General Administration Department, who serves as committee chairman, and the risk management officers including those of the departments supervising subsidiaries. The sub-committee has set Group standards, including management systems and tools for legal compliance with the Construction Business Act and other laws and regulations, and efficiently responds to compliance risk. The sub-committee was convened twice in fiscal 2015 and undertook ongoing improvement of the compliance system. Specific steps included continuing Group-wide initiatives from the previous fiscal year of conducting simultaneous inspections of risks regarding legal and regulatory requirements, such as business. Moreover, at a compliance seminar to which external experts were invited as instructors, the Group provided opportunities for individuals in charge of compliance at each company, including subsidiaries, to keep up with the latest knowledge, raise their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities are reported to the Statutory Auditors and the Internal Audit Department every month to share compliance risk information. Critical Group-wide matters are shared with the auditors of each Group company through the Group Board of Statutory Auditors. The execution line for business integrates both internal and external approaches to establish a robust compliance system.

Internal Audits

Of the Group's approximately 200 business sites, the Internal Audit Department selects about 60 business sites each year to undergo an internal audit based on prior risk assessment. These audits are conducted to verify the status of each business site's business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officers in charge of internal audits and auditors as well as managers, executive officers and directors in charge of the business sites being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and implementing quarterly follow-up audits. The results of these actions are reported to the president and executive officers in charge of internal audits.

Financial Section

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Eleven-Year Consolidated Financial Summary

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

*1. Working capital = Current assets – Current liabilities

*2. From the fiscal year ended March 31, 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.

*3. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

*4. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

*5. Interest coverage ratio (times) = cash flow from operating activities / interest payments

Millions of yen

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

Market Overview

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

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

Consolidated Operating Results

1 Net Sales and Orders Received

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

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

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

2 Selling, General and Administrative Expenses

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

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

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

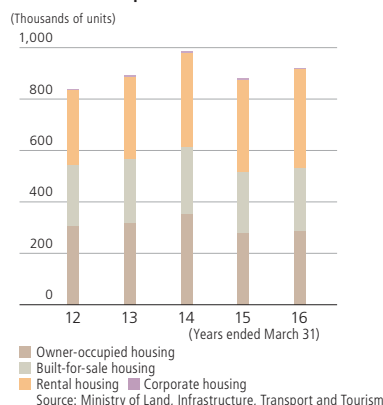
3 Operating Income, Recurring Income

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

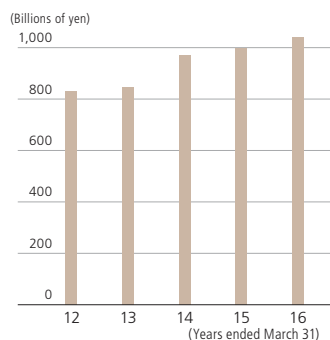
Despite a decline in the previous fiscal year, this marked the third consecutive period that we were able to secure recurring income of at least ¥30,000 million. Furthermore, excluding the impact of the aforementioned actuarial differences, operating income rose 21.5% to ¥41,624 million, and recurring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

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

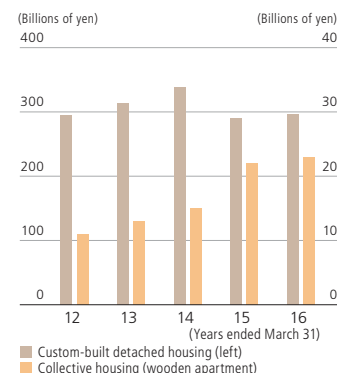
Number of New Housing Starts in Japan



Net Sales



Amount of Orders Received



4 Profit Attributable to Owners of Parent

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

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

Segment Results

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

1 Timber and Building Materials Business

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

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

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

2 Housing Business

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

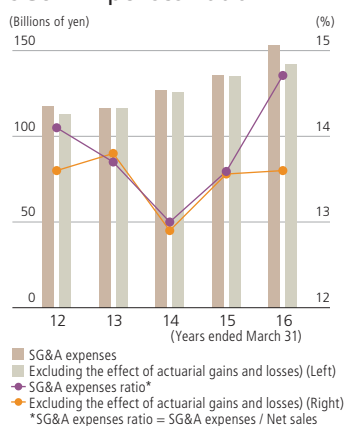
Custom-Built Detached Housing Business

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

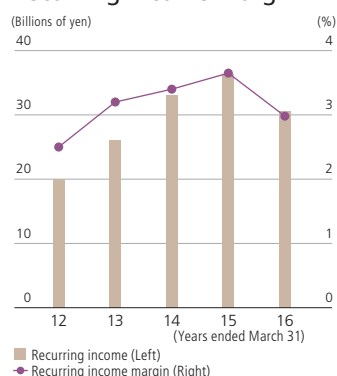
Apartment Business

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

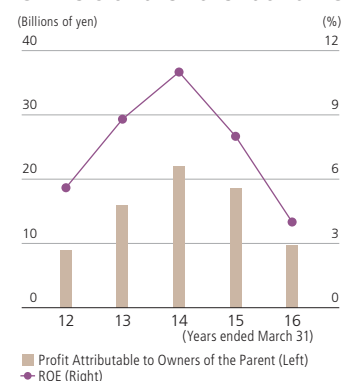
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



Renovation Business

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

Detached Spec Home / MOCCA (timber solutions) Business

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

3 Overseas Business

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

In the Overseas Manufacturing Business, profits were substantially higher than the previous year in New Zealand thanks to improved profitability resulting from the exchange rate in sales of medium density fiberboard (MDF) to Japan. In Indonesia, results were sluggish due to low unit selling prices of

particle board in the country. In Vietnam we expanded production volume while promoting plant management considering particle board quality and the environment. Additionally, in order to establish a system for production and shipment of products to Japan, we obtained certification for displaying the JIS (Japanese Industrial Standards) mark for particle board in December 2015.

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

4 Other Businesses

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

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

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

Housing Business

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

Segment Performance Highlights

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

* Net sales include intersegment sales and transfers.

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

Net Sales and Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Millions of yen)

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

Housing Business

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

Overseas Business

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

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

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

*2 Henley Properties Group consists of Henley Arch Unit Trust, and eight other companies.

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

Financial Position and Cash Flow

1 Financial Position

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

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

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

2 Cash Flow

Cash flows from operating activities

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

Cash flows from investment activities

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

Cash flows from financing activities

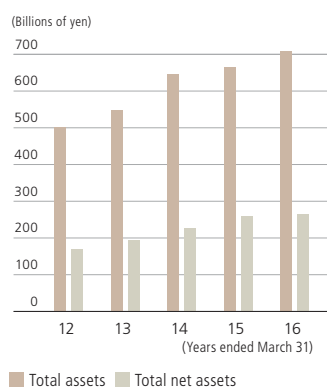
Net cash provided by financing activities amounted to ¥1,813 million. Cash-increasing factors such as an increase in interest-bearing debt exceeded cash-decreasing factors such as payment of dividends.

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

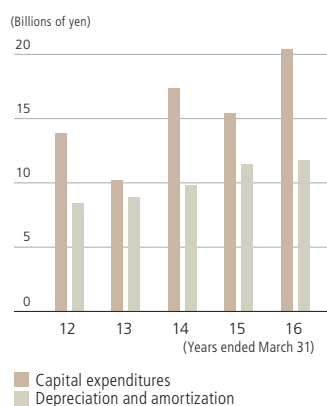
3 Capital Expenditures (Capital Investment)

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

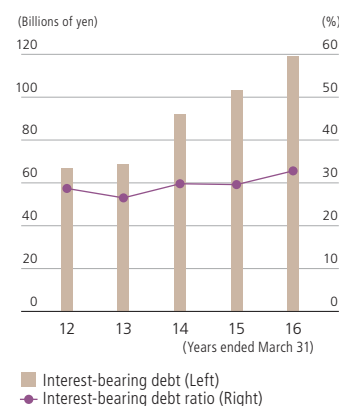
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



1 Housing Market Trends

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

1. Economic Cyclical Changes

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

2. Interest Rate Fluctuations

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

3. Land Price Fluctuations

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

4. Tax System and Housing-Related Policy Changes

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

2 Statutory Changes

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

3 Competition

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

4 Capitalization and Investment Strategy

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

5 Timber and Building Materials Market Conditions

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

6 Exchange Rate Fluctuations

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

7 Product Quality Assurance

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

8 Overseas Business Activities

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

9 Retirement Benefit Obligations

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

10 Stock Market

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

11 Natural Disasters

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

12 Information Security

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

13 Environmental Risk

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

14 Decline in the Value of Assets under Management

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

15 Provision of Credit to Business Partners

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

16 Litigation Risk

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

17 Fundraising Risk

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

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

Consolidated Balance Sheets

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

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

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
LIABILITIES AND NET ASSETS			
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 17, 18)	¥176,444	¥167,563	\$1,561,451
Other	13,165	12,623	116,502
Short-term debt (Notes 7, 8)	21,592	22,990	191,076
Current portion of long-term debt (Notes 7, 8)	10,995	8,350	97,299
Current portion of lease obligation (Note 7)	1,691	2,146	14,969
Advances received from customers	51,922	49,644	459,491
Accrued income taxes	7,572	4,617	67,012
Accrued employees' bonuses	10,873	9,866	96,223
Accrued directors and corporate auditors' bonuses	130	135	1,150
Other current liabilities (Notes 3, 24)	18,869	14,176	166,984
Total current liabilities	313,254	292,110	2,772,157
Long-term liabilities:			
Bonds issued (Note 7)	—	5,000	—
Bonds with subscription rights to shares (Note 7)	20,000	20,000	176,991
Long-term debt (Notes 7, 8, 17, 18)	62,115	41,214	549,693
Long-term lease obligation (Note 7)	2,676	3,669	23,684
Deferred tax liabilities (Note 10)	5,022	12,244	44,445
Liability for retirement benefits (Note 19)	23,718	13,066	209,891
Other long-term liabilities (Notes 3, 24)	18,275	17,454	161,729
Total long-term liabilities	131,807	112,646	1,166,433
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2016 and 177,410,239 shares in 2015	27,672	27,672	244,885
Capital surplus	26,872	26,872	237,801
Retained earnings	166,762	161,286	1,475,772
Treasury stock: 280,362 shares in 2016 and 278,529 shares in 2015	(278)	(275)	(2,456)
Total shareholders' equity	221,028	215,555	1,956,002
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	16,270	22,342	143,979
Deferred gain (loss) on hedges	(58)	(124)	(516)
Translation adjustments	6,497	8,101	57,495
Retirement benefits liability adjustments	(276)	(124)	(2,446)
Total accumulated other comprehensive income	22,432	30,195	198,512
Subscription rights to shares	36	0	318
Non-controlling interests	20,631	15,032	182,577
Total net assets	264,127	260,782	2,337,409
Total liabilities and net assets	¥709,188	¥665,538	\$6,275,999
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥1,374.47	¥1,387.39	\$12.16

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Net sales	¥1,040,524	¥997,256	\$9,208,181
Cost of sales (Note 3):	857,390	827,764	7,587,526
Gross profit	183,134	169,492	1,620,655
Selling, general and administrative expenses (Note 12)	153,041	135,498	1,354,343
Operating income	30,093	33,994	266,312
Other income (expenses):			
Interest and dividends income	1,824	1,624	16,144
Interest expense	(1,236)	(1,136)	(10,942)
Equity in earnings (losses) of affiliates	761	1,021	6,734
Gain on sales of investment securities	33	128	288
Subsidy income	705	—	6,236
Gain on abolishment of retirement benefit plan	144	—	1,275
Impairment loss (Note 9)	(4,692)	(1,112)	(41,521)
Loss on devaluation of investment securities	—	(0)	—
Loss of reduction of non-current assets	(705)	—	(6,236)
Special retirement payment	(71)	(536)	(625)
Gain (Loss) on step acquisitions	—	(338)	—
Other gains (losses), net (Note 11)	(613)	1,094	(5,424)
Total	(3,850)	744	(34,071)
Income before income taxes	26,243	34,738	232,241
Income taxes (Note 10):			
Current	15,808	11,914	139,893
Deferred	(4,919)	841	(43,529)
Total	10,889	12,756	96,364
Profit	15,354	21,982	135,877
Profit attributable to non-controlling interests	5,627	3,410	49,795
Profit attributable to owners of parent	¥ 9,727	¥ 18,572	\$ 86,082
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Profit attributable to owners of parent (Note 22)	¥54.92	¥104.85	\$0.49
Cash dividends	24.00	21.50	0.21

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

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

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

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

See accompanying notes to consolidated financial statements.

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

Thousands of U.S. dollars

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

See accompanying notes to consolidated financial statements.

Millions of yen

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

Millions of yen

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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

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

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. Nature of Operations

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

2. Basis of Presenting Consolidated Financial Statements

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

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

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

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

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

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

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

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statement of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) Accrued employees' bonuses

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

(f) Accrued directors' and corporate auditors' bonuses

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

(g) Warranty reserve for completed construction

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

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

(h) Accrued employees' retirement benefits

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

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

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

(i) Accrued retirement benefits to directors and corporate auditors

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

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

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:

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

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

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

(k) Derivatives

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

(l) Inventories

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

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

identification method.

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

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

(m) Property, plant and equipment

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

(n) Intangible assets

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

(o) Impairment of fixed assets

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

(p) Hedge accounting

i) Hedge accounting method:

The deferred hedge accounting method is applied.

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

ii) Hedging method:

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

iii) Scope of hedging:

Certain transactions, including planned transactions and borrowings exposed to interest rate fluctuation risk, etc., in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method:

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

(q) Amortization method and period of goodwill

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

(r) Timberland

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

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

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

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

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

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

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

(s) Revenue recognition

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

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

(t) Income taxes

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

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

(u) Consumption taxes

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

(v) Appropriations of retained earnings

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

(w) Earnings per share of common stock

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

(x) Reclassifications

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

(y) Accounting Change

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

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

- (1) Any differences arising from changes in a parent's ownership interests in a subsidiary are accounted for as changes in capital surplus when the parent company retains control over the subsidiary.
- (2) Acquisition-related costs are accounted for as expenses when incurred.
- (3) Regarding business combinations, from the beginning of the fiscal year ended March 31, 2016, the Company changed the accounting method to reflect the revised allocation of purchases price arising from the finalization of provisional accounting treatment on the consolidated financial statements for the period in which the business combination occurs.
- (4) "Income before minority interests" in the previous year's consolidated statement of income has been changed to "profit" and "net income" in the previous year's consolidated statement of income has been changed to "profit attributable to owners of parent." In addition, "minority interests" in the previous year's consolidated balance sheet has been changed to "non-controlling interests."

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

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

(z) Accounting standards issued but not yet effective

(Implementation Guidance on Recoverability of Deferred Tax Assets)

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

(1) Overview

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

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adopting revised implementation guidance

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

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥113 = US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2016. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

5. Securities

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

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

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

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

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

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

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

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

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

(c) Impairment of securities

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

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

6. Timberland

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

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

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

7. Short-Term and Long-Term Debt

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

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

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

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

8. Pledged Assets and Secured Liabilities

(a) Pledged assets

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

(b) Secured liabilities

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

9. Loss on Impairment of Fixed Assets

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

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

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

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

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

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

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

10. Income Taxes

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

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

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

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

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

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

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

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

The "Act to partially revise the Income Tax Act and Others" (Act No. 15 of 2016) and the "Act to partially revise the Local Tax Act and Others" (Act No. 13 of 2016) were enacted on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the year beginning from April 1, 2016 and April 1, 2017, and 30.6% for the temporary differences expected to be realized or settled in the year beginning from April 1, 2018. The effect of the announced reduction

of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥360 million (\$3,189 thousand) and deferred gain (loss) on hedges by ¥1 million (\$11 thousand), and increase deferred income taxes by ¥738 million (\$6,527 thousand) and unrealized gain on available-for-sale securities by ¥ 378million (\$3,349 thousand) as of and for the year ended March 31, 2016.

11. Other Gains (Losses), Net

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

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

12. Selling, General and Administrative Expenses

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

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

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

13. Cash and Cash Equivalents

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

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

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

DRB Enterprises, LLC and seven other companies

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

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

Gehan Homes, Ltd. and six other companies

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

Cascadia Resort Communities LLC

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

14. Shareholders' Equity

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

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

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

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

15. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

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

16. Contingent Liabilities

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

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

17. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

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

(c) Risk management for financial instruments

(Credit risk management)

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

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

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

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

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

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

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

(e) Fair value of financial instruments

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

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

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

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

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

** Long-term debt includes the current portion.

Notes:

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

(1) Assets

(Cash and time deposits, Receivables—notes and accounts, trade, Receivables—loans and other)

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

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables—notes and accounts, trade)

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

(Long-term debt)

The fair values of long-term debt with floating interest rates approximate book values because the interest rate of long-term debt reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See Note 18.

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

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

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

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

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

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

18. Derivatives and Hedging Activities

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

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

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

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

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

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

Millions of yen				
2016				
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts amount payable	¥ 2,673	¥ —	¥ (3)
Sell (Euro)		2,233	—	(40)
Buy (U.S. dollar)	Accounts amount payable	8,016	—	(213)
Buy (Euro)		5,846	—	(41)
Buy (NZ dollar)	Investments denominated in foreign currencies	21,623	—	212
Appropriated accounting for foreign currency:				
Sell (U.S. dollar)	Accounts amount receivable	49	—	*
Buy (U.S. dollar)	Accounts amount payable	809	—	*
Buy (Euro)		135	—	*
Total		¥41,384	¥ —	¥ (84)
Interest rate swaps:				
Accounted for by exceptional method:				
Receive floating pay fixed	Long-term bank loans	4,627	2,713	*
Total		¥ 4,627	¥2,713	¥ —
Millions of yen				
2015				
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,099	¥ —	¥ (4)
Sell (Euro)		2,099	—	14
Sell (NZ dollar)		2,718	—	(70)
Buy (U.S. dollar)	Accounts amount payable	10,630	—	122
Buy (Euro)		6,010	—	(315)
Appropriated accounting for foreign currency:				
Sell (U.S. dollar)	Accounts amount receivable	146	—	*
Buy (U.S. dollar)	Accounts amount payable	965	—	*
Buy (Euro)		178	—	*
Total		¥26,848	¥ —	¥(252)
Interest rate swaps:				
Accounted for by exceptional method:				
Receive floating pay fixed	Long-term bank loans	15,814	3,324	*
Total		¥15,814	¥3,324	¥ —

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

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

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

19. Employees' Retirement Benefits and Pension Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21. Segment Information

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

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

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

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

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

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

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

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

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

20. Investment Property

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

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

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

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

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

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,056 million of administration department profit.

2. Adjustments for segment income and loss include ¥162 million of elimination of inter-segment income and loss, ¥257 million of retirement benefits liability adjustments, and ¥2,800 million of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥10,073 million of inter-segment eliminations, ¥209,075 million of corporate asset, which are not allocable to the reportable assets.

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

(Related information)

(1) Products and services information

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

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

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

(2) Geographic area information

Sales information by geographic area was as follows:

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

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

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

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

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

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

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

(3) Customer information

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

(Information of loss on impairment of fixed assets)

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

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

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

(Amortization and balance of goodwill)

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

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

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

22. Amounts per Share

(a) Basic and diluted net income per share

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

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

(b) Net assets per share

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

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

23. Other Comprehensive Income

Reclassifications and income tax effects attributable to other

comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

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

24. Asset Retirement Obligations

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

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

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

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

25. Related Party Transactions

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

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

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

Notes: 1. Prices for sales of housing was determined based on the same terms as third party transactions.

2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

26. Business Combination

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

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

1. Summary of the business combination

(1) Name of the acquiree and business description

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

Description of business: Housing business and related businesses

(2) Main reason for implementing the business combination

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

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

(4) Legal form of the business combination:

Acquisition of shares for a cash consideration

(5) Name of the merged entity

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

(6) Ratio of voting rights acquired: 60%

(7) Main reasons for determining the acquirer

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

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

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

3. Breakdown of consideration for acquisition and type of consideration

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

Acquisition cost: ¥8,789 million (\$77,779 thousand)

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

4. Description and amount of primary acquisition-related costs

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

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

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

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

(2) Reason for recognition

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

(3) Amortization method and period

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

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

See Note 13.

27. Stock Option Plan

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

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

2. Description of stock options

(1) Description of stock options

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

Note: Converted into the number of equivalent shares.

(2) Volume and changes in stock options

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

1) Number of stock options

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

2) Unit price information

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

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

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

(1) Valuation technique used: Black-Scholes model

(2) Principal parameters and estimation method used

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

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

4. Method for estimating the number of vested stock options

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

28. Additional Information

Acquisition of significant assets

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

1. Reason for the acquisition

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

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

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

(1) Name of counterparty: Tasman Bay Forests Company

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

3. Date of completion of acquisition

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

4. Acquisition cost and payment method

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

29. Subsequent Events

(i) Transactions under common control

Acquisition of additional shares in subsidiary

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: Gehan Homes, Ltd. and six other companies

Description of business: Housing business and related businesses

(2) Date of the business combination

April 29, 2016 (U.S. date)

(3) Legal form of the business combination

Acquisition of shares for a cash consideration

(4) Name of the merged entity

No change in name

(5) Other matters

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

2. Summary of accounting treatment

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

3. Matters pertaining to acquisition of additional shares

Breakdown of consideration for acquisition and type of consideration

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

Acquisition cost: ¥14,744 million (\$130,478 thousand)

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

(1) Key factors behind change in capital surplus

Acquisition of additional shares in subsidiary

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

(ii) Issuance of unsecured bonds

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

The third series of unsecured straight bonds (with inter-bond pari passu clause)

(1) Total amount of corporate bonds:

¥20,000 million (\$176,991 thousand)

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

(3) Interest rate: 0.330% per annum

(4) Redemption date: June 17, 2026

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

(6) Application of the funds:

To be appropriated to the acquisition of forest assets in New Zealand by a consolidated subsidiary.

Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 24, 2016
Tokyo, Japan

Sumitomo Forestry Group Overview

(As of July 31, 2016)

Domestic Group Overview

Environment and Resources Business

1	Sumitomo Forestry Wood Products Co., Ltd.	Procurement and sale of Japanese timber, management of forest, and forestry-related businesses
2	Japan Bio Energy Co., Ltd.	Intermediate processing of industrial waste products, and supply and sale of wood chips
3	Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
4	Okhotsk Bio Energy Co., Ltd.	Supply and sale of wood chips
5	Mombetsu Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
6	Michinoku Bio Energy Co., Ltd.	Supply and sale of wood chips
7	Hachinohe Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
8	Tomakomai Biomass Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power

Timber and Building Materials Business

9	Sumitomo Forestry Crest Co., Ltd.	Manufacture and sale of various types of plywood, building components for housing, and adhesives, etc.
10	Sumirin Sash Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
11	Sumikyo Wintec Co., Ltd.	Sale of door and window sashes for housing and low- and mid-rise buildings, and exterior finishing materials
12	Sumikyo Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
13	Igeto Co., Ltd.	Sale of housing materials and equipment
14	Daiichisansho Co., Ltd.	Sale of housing materials and equipment, interior and exterior finishing
15	Nihei Co., Ltd.	Sale of housing materials and equipment, ancillary work
16	Home Eco Logistics Co., Ltd.	Distribution services for home building materials
17	Nichiha Fuji Tech Co., Ltd.	Manufacture and sale of ceramics and construction materials

Housing Business

18	Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
19	Sumitomo Forestry Residential Co., Ltd.	Management of condominiums and apartments
20	Sumitomo Forestry Home Tech Co., Ltd.	Renovation and maintenance of Sumitomo Forestry's custom-built wooden detached homes and renovation of regular detached houses, stores and offices, as well as condominiums
21	Sumitomo Forestry Landscaping Co., Ltd.	Urban greening; landscaping for private residences, plant management, procurement and sale of trees and landscape materials, plant rental, etc.
22	Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden detached homes
23	Sumitomo Forestry Archi Techno Co., Ltd.	Design, production support, site and foundation surveys, analysis of foundation and application for housing performance evaluation for Sumitomo Forestry's custom-built wooden detached homes
24	Meikan Honchosha PFI Co., Ltd.	Redevelopment of headquarters, etc. of Nagoya Port Authority

Lifestyle Services Business

25	Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
26	Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, office services, etc.
27	Sumirin Business Service Co., Ltd.	Staffing business, training, business contracting
28	Sumirin Agro-Products Co., Ltd.	Production and sale of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc.
29	Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
30	Fill Care Co., Ltd.	Management of nursing care facilities for senior citizens, etc.
31	Sumirin Wood Peace Co., Ltd.	Bed log shiitake mushroom cultivation and sale, production and processing of timber and interior products; printing

Overseas Group Companies

U.S.A.

1	Sumitomo Forestry America, Inc.	Oversight and participation in management of affiliated companies in U.S.A.
2	Canyon Creek Cabinet Company	Manufacture and sale of kitchen cabinets
3	Bloomfield Group Bloomfield Homes, L.P.	Construction and sale of spec homes
4	Gehan Homes Group Gehan Homes, Ltd.	Construction and sale of spec homes
5	MainVue Homes Group MainVue Homes LLC	Construction and sale of spec homes
6	Dan Ryan Builders Group DRB Enterprises, LLC	Construction and sale of spec homes

Australia

7	Sumitomo Forestry Australia Pty Ltd.	Oversight and participation in management of affiliated companies in Australia
8	Alpine MDF Industries Pty Ltd.	Manufacture and sale of medium density fiberboard (MDF)
9	Henley Group Henley Arch Pty Ltd. (Henley Arch Unit Trust)	Construction and sale of custom-built homes and spec homes
10	Wisdom Group Wisdom Properties Group Pty Ltd.	Construction and sale of custom-built homes and spec homes

New Zealand

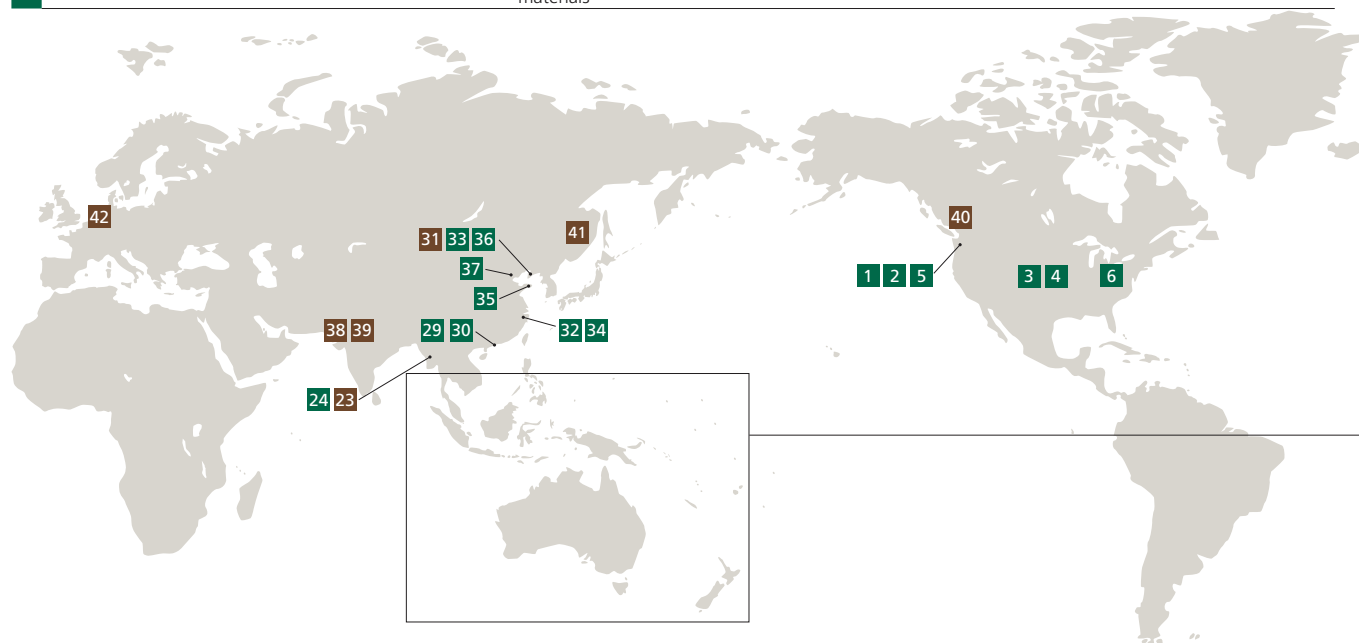
11	Sumitomo Forestry NZ Ltd.	Management of affiliated companies in New Zealand
12	Nelson Pine Industries Ltd.	Manufacture and sale of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
13	Tasman Pine Forests Ltd.	Large-scale forestation

Papua New Guinea

14	Open Bay Timber Ltd.	Large-scale forestation
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Indonesia

15	PT. Sumitomo Forestry Indonesia	Import/export and wholesale of timber and building materials, etc.
16	PT. Mayangkara Tanaman Industri	Large-scale forestation
17	PT. Wana Subur Lestari	Large-scale forestation
18	PT. Kutai Timber Indonesia	Manufacture and sales of plywood, secondary processed plywood, processed timber products and particle board
19	PT. Rimba Partikel Indonesia	Manufacture and sale of particle board
20	PT. Sinar Rimba Pasifik	Manufacture and sale of wooden interior products
21	PT. AST Indonesia	Manufacture and sale of materials for musical instruments, speaker materials and wooden building materials



Singapore

22	Sumitomo Forestry (Singapore) Ltd.	Import/export and wholesale of timber and building materials; oversight and participation in management of affiliates in Asia
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Myanmar

23	Sumitomo Forestry (Singapore) Ltd. Yangon Branch	Import/export and wholesale of timber and building materials, collect information of overseas locations
24	MOS Lumber Products Co., Ltd.	Manufacture and sale of processed timber products

Thailand

25	SF Holdings (Thailand) Co., Ltd.	Management of affiliated companies in Thailand
26	PAN ASIA PACKING LTD.	Procurement and sale of wooden packaging materials and wood products

Vietnam

27	Sumitomo Forestry (Vietnam) Co., Ltd.	Import/export and wholesale of timber and building materials
28	Vina Eco Board Co., Ltd.	Manufacture and sale of particle board

Hong Kong

29	住林香港有限公司 SUMIRIN HONG KONG LIMITED	Management of affiliated companies in Hong Kong
30	怡峰控股有限公司 Rainbow Alpha Holdings Limited	Development of condominium complexes

China

31	住友林業(大連)商貿有限公司 Sumitomo Forestry (Dalian) Ltd.	Import/export and wholesale of timber and building materials
32	住友林業(上海)商貿有限公司 Sumitomo Forestry (Shanghai) Ltd.	Import/export and wholesale of timber and building materials, supervision of housing business in China
33	派爾剛聯合木製品(大連)有限公司 Paragon Wood Product (Dalian) Co., Ltd.	Design and construction of wooden housing; interior design and construction of housing and offices
34	派爾剛木製品(上海)有限公司 Paragon Wood Product (Shanghai) Co., Ltd.	Interior design and construction of housing and offices; manufacturing, processing and sale of trusses
35	煙台海外金橋房屋租賃有限公司 Yantai Golden Bridge Enterprise Co., Ltd.	Brokerage of rental housing
36	大連住林信息技術服務有限公司 Dalian Sumirin Information Technology Service Co., Ltd.	Contracted CAD work and other business processing
37	北京金隅裝飾工程有限公司 Beijing BBMG Decoration Engineering Co., Ltd	Interior design and construction of housing and offices

India

38	Sumitomo Forestry India Pvt. Ltd.	Import/export and wholesale of timber and building materials, etc.
39	Spacewood Furnishers Pvt. Ltd.	Manufacture and sale of wooden interior products



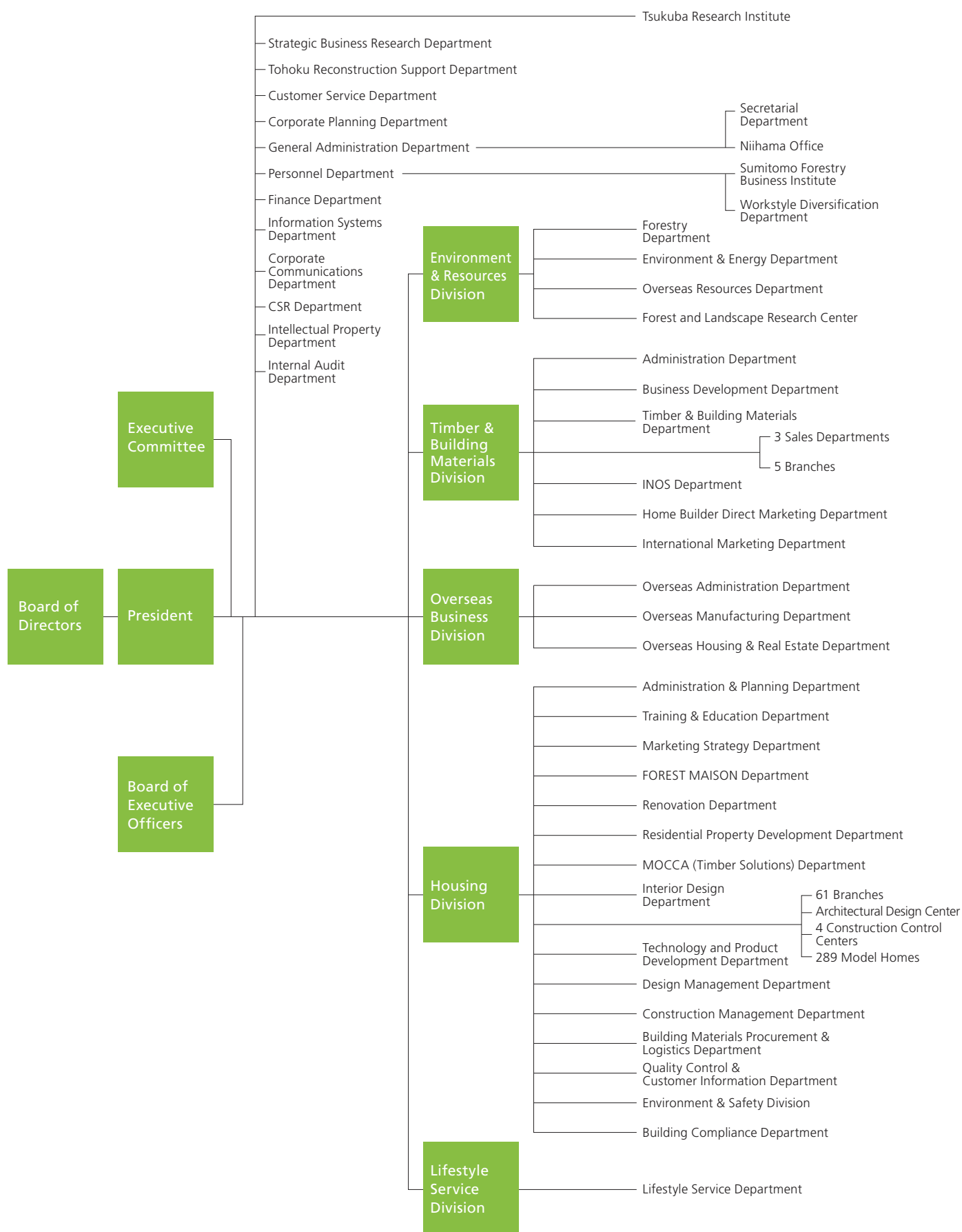
Overseas Offices

40	Vancouver Office
41	Khabarovsk Office
42	Amsterdam Office
43	Kota Kinabalu Office

- Overseas Business
- Timber and Building Materials Business
- Other Businesses

Organization Chart

(As of April 1, 2016)



Investor Information

Company Outline (As of March 31, 2016)

Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥27,672 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	177,410,239
Ordinary Shareholders' Meeting	June
Number of Shareholders	10,481
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	84 (Overseas 54)
Affiliated Companies	26 (Overseas 22)
Number of Employees (Consolidated)	17,001
Homepage	http://sfc.jp/english/
Independent Auditors	Ernst & Young ShinNihon LLC
Contact Information	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel : 81-3-3214-2270 Fax: 81-3-3214-2272

*Stock Price and Trading Volume

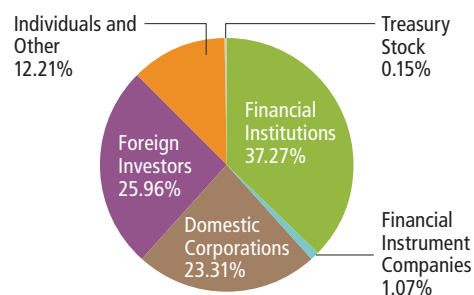
Major Shareholders (As of March 31, 2016)

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.7
The Master Trust Bank of Japan, Ltd. (trust account)	9,416	5.3
Japan Trustee Service Bank, Ltd. (trust account)	6,402	3.6
The Iyo Bank, Ltd.	5,849	3.3
Sumitomo Corporation	4,383	2.4
Sumitomo Life Insurance Company	4,227	2.3
The Hyakujushi Bank, Ltd.	4,197	2.3
Sumitomo Mitsui Banking Corporation	4,136	2.3
Sumitomo Mitsui Trust Bank, Ltd.	3,408	1.9
Japan Trustee Service Bank, Ltd. (trust account 9)	3,296	1.8

* Rounded down to the nearest thousand.

* The shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.

Breakdown of Shareholders (As of March 31, 2016)



Stock Price and Trading Volume



Note: Following the integration of the Osaka Securities Exchange into the Tokyo Stock Exchange on July 16, 2013, the above graph uses the stock price of the Tokyo Stock Exchange, and the combined trading volumes of the Osaka Securities Exchange and the Tokyo Stock Exchange before the integration.



SUMITOMO FORESTRY CO.,LTD.

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