



Seeds for a Sustainable Society



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.



Company-owned forest
(Shikoku)

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 an invaluable resource, vital and intimately connected to life.

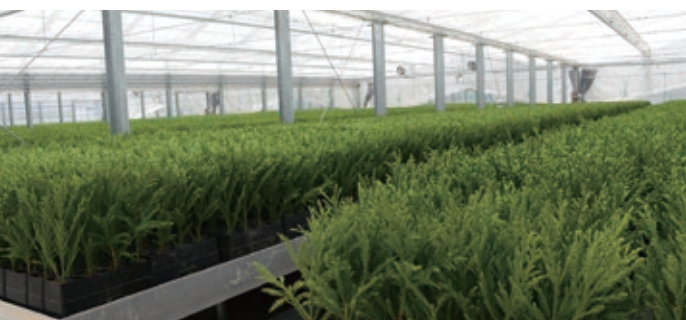
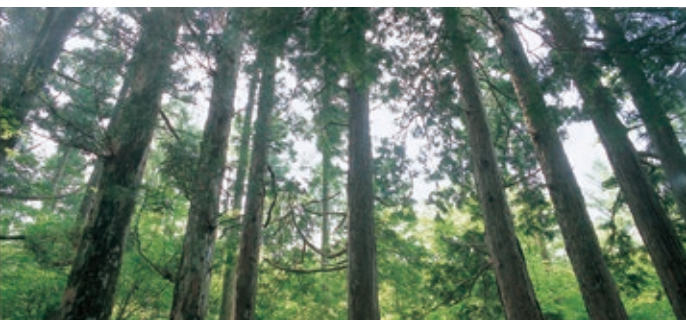
No other work could bring such joy and happiness — that's how we at the Sumitomo Forestry Group feel when we consider the boundless importance of trees.

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



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Editorial Policy

Sumitomo Forestry's Integrated Report conveys to shareholders and investors and all stakeholders information about yearly performance and medium- to long-term initiatives for corporate value enhancement. It is issued with the aim of sparking opportunities for further dialogue.

The International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) was used as a reference in the editing of this report.

Reporting Period

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

* The report also includes some activities from outside the reporting period.

Scope of Reporting

Sumitomo Forestry Co., Ltd. and Group companies

Third-Party Assurance regarding ESG Information

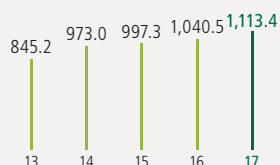
With the aim of ensuring the appropriateness and objectivity of non-financial information disclosed, some environmental and social performance indicators that are disclosed on the Sumitomo Forestry CSR website have been assured by a third-party assurance provider, KPMG AZSA Sustainability Co., Ltd. Please refer to the Company's CSR website to view the independent third-party assurance report.

<http://sfc.jp/english/information/society/>

Financial (Years ended March 31)

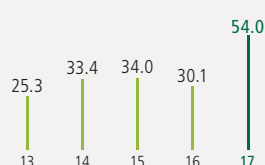
Net Sales
1,113.4
billion yen

YoY change **+7.0%**



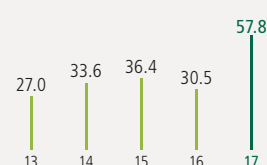
Operating Income
54.0
billion yen

YoY change **+79.4%**



Recurring Income
57.8
billion yen

YoY change **+89.6%**



Profit Attributable to Owners of Parent

34.5
billion yen

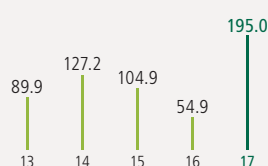
YoY change **+255.0%**



Net Income per Share

195.0
yen

YoY change **+140.0 yen**



Dividend per Share

35.0
yen

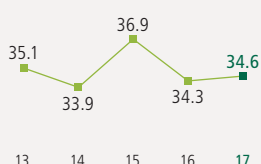
YoY change **+11.0 yen**



Equity Ratio

34.6
%

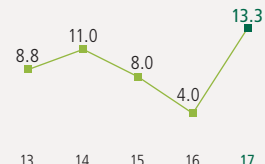
YoY change **+0.3 points**



ROE (Return on Equity)

13.3
%

YoY change **+9.3 points**



ROA (Return on Assets)

7.7
%

YoY change **+3.3 points**



External Commendations

Inclusion in Socially Responsible Investment Indexes (As of July 2017)

FTSE4Good Global Index

We have been included in this index since 2004.



Morningstar SRI Index

We have been included in this index since 2008.



Government Pension Investment Fund (GPIF)

Sumitomo Forestry is a composite stock in all three passively managed ESG indexes.



Sustainability

| | | |
|--|--|--|
| <p>Percentage of Reviews Conducted for Suppliers Who Handle Directly Imported Timber and Wood Products with Verified Legal Compliance</p> <p>100%</p> | <p>Carbon Stock*¹ by Timber Used in New Detached Homes in Japan</p> <p>228,000 t-CO₂</p> <p><small>* The volume of CO₂ fixed in timber used in new detached houses constructed by the Group in Japan</small></p> | <p>Company-Managed and Owned Forests</p> <p>— Domestic —</p> <p>46,444 ^{*1} ha</p> <p>— Overseas —</p> <p>Approximately 230,000 ^{*2} ha</p> <p><small>*1. As of April 1, 2017 *2. As of July 1, 2017</small></p> |
| <p>Number of Employees (Domestic and Overseas)</p> <p>17,802</p> <p>(Overseas 7,089)</p> <p><small>* As of March 31, 2017</small></p> | <p>CO₂ Emissions Reductions in the Office Category</p> <p>7.8% reduction</p> <p><small>* Compared to the year ended March 31, 2014</small></p> | <p>CO₂ Emissions</p> <p>Scope 1 (Direct emissions from the Group)</p> <p>184,694 t-CO₂ [*]</p> <p>Scope 2 (Indirect emissions through purchased power and heating)</p> <p>151,323 t-CO₂ [*]</p> <p><small>* Includes Mombetsu Biomass Power Plant, which started operating from December 2016</small></p> |
| <p>Reduction in Industrial Waste Generated at New Construction Sites in Japan</p> <p>8.8% reduction</p> <p><small>* Compared to the year ended March 31, 2014</small></p> | <p>Reduction in Waste Generated at Building Materials Manufacturing Plants in Japan</p> <p>21.4% reduction</p> <p><small>* Compared to the year ended March 31, 2016</small></p> | <p>Carbon Stock by Company-Owned Forests in Japan and Plantation Forests Overseas*</p> <p>20.37 million t-CO₂</p> <p><small>* The volume of carbon accumulated through absorption of CO₂ by forests managed and owned by the Group</small></p> |
| <p>Employee Satisfaction in Japan</p> <p>80.6%</p> <p><small>* Fiscal 2015 survey (conducted every other year)</small></p> | <p>Hours of Training Received per Employee on average in Japan</p> <p>9.4 hours</p> | <p>Customer Satisfaction According to Surveys Conducted When Owners Move In</p> <p>86.8%</p> <p><small>* Percentage of customers who responded "I would recommend Sumitomo Forestry homes"</small></p> |

Bronze Class for the second consecutive year in RobecoSAM's Sustainability Yearbook 2017

We were awarded the Bronze Class commendation for the second consecutive year in the Sustainability Yearbook 2017, a CSR rating by RobecoSAM, in addition to being selected as one of the world's most sustainable companies for the 10th straight year in the Home Building Industry Sector.



Selected for inclusion in the Climate Change A List, the highest ranking in CDP Climate Change 2016

CDP is one of the world's leading SRI evaluation bodies, and scores companies on their greenhouse gas emissions and climate change strategies. Sumitomo Forestry was selected as a Climate Change A List company by CDP, its highest ranking.



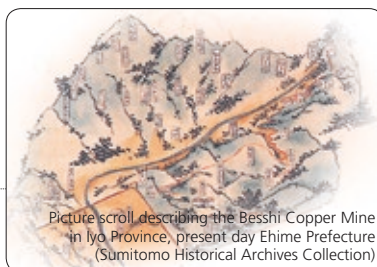
Selected as a Certified Health and Productivity Management Organization in 2017

Sumitomo Forestry was chosen as a Certified Health and Productivity Management Organization in 2017, through a system created and managed by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi to recognize outstanding enterprises engaging in efforts for health and productivity management.



Sumitomo Forestry
founded

1691



Picture scroll describing the Besshi Copper Mine in Iyo Province, present day Ehime Prefecture (Sumitomo Historical Archives Collection)

1691

Started operations of Sumitomo family's Besshi Copper Mine and the management of the surrounding forests.

1894

Teigo Iba, the manager of the Besshi Copper Mine, creates the Large-Scale Reforestation Plan in the spirit of gratitude for nature's resources



1975

Started the custom-built detached housing business

1955

Toho Norin Co., Ltd. and Shikoku Ringyo Co., Ltd. merged to form Sumitomo Forestry Co., Ltd. and established a nationwide network to procure and sell domestic timber

1955

1956

1970

1975

1986

2003



1956

Launched the timber import business



1970

Established PT. Kutai Timber Indonesia (KTI), in Indonesia and launched full-scale building materials manufacturing business focused on plywood



1986

Medium density fiberboard (MDF) production plant ramps up operations at Nelson Pine Industries Ltd. (NPIL), established in New Zealand



2003

Started housing business in the United States (Seattle, Washington)

Our History

The Sumitomo Forestry Group traces its origins back to the management of the forests neighboring the Besshi Copper Mine, which was opened in 1691. Over more than 320 years, the Group has expanded its scope of activities to accommodate the changing needs of the times, eventually assuming its present global business structure. Today, our pursuit of possibilities continues with trees. Based on our Corporate Philosophy and Action Guidelines, we are determined as a corporate group to be a model for sustainable growth.

The Large-Scale Reforestation Plan and the Beginnings of Sustainable Forestry

In the late 19th century, the forests surrounding the Besshi Copper Mine were in danger of being devastated after a long period of excessive logging and smoke pollution. The then manager of the mine, Teigo Iba, believed that "allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state." With this belief, he launched the Great Reforestation Plan in 1894 to restore the forests that had been lost. Through a process of trial and error, and by implementing large-scale planting efforts of more than two million trees per year, the mountains were eventually returned to a state of rich greenery.



Teigo Iba
(Sumitomo Historical Archives Collection)



Mount Besshi ravaged by the impact of mining operations during the Meiji era
(Sumitomo Historical Archives Collection)



Mount Besshi today (Ehime)

2005



2005

Developed wooden beam rahmen structure method, a first in Japan (the Big-Frame construction method)



2007

Started elderly care business

2007

2008

2011

2011

Started MOCCA (timber solutions) Business

➡ Page 20 Feature Story: MOCCA (Timber Solutions) Business

Started environmental energy business

Kawasaki Biomass Power Plant started operations

➡ Page 22 Feature Story: Wood Biomass Power Generation Business

2016

Acquired roughly 31,000 hectares of forest in New Zealand, increasing total forest managed and owned in the country to about 36,000 hectares

➡ Page 24 Feature Story: Overseas Forestation Business

2016

2017



2008

Started housing business in Australia



2016

Started housing business on the U.S. East Coast

Message from the Chairman

Centered on Pacific Rim countries, the Sumitomo Forestry Group is engaged globally in a diverse range of businesses related to forests and trees, extending from forestry management and the production and distribution of timber and building materials to the construction of wooden homes and the operation of wood biomass power generation plants.

The start of the Sumitomo Forestry Group's business goes back to 1691 with the commencement of operation of the Besshi Copper Mine and management of the surrounding forest. Although unimaginable for a forest today, excessive logging and smoke pollution from the copper smelter had devastated the forests around the copper mine. The manager of the mine at that time, Teigo Iba, launched the Large-Scale Reforestation Plan in 1894, planting more than two million trees per year. Over a long period, the mountains were eventually returned to a state of rich greenery.

Our operations are rooted in the Sumitomo Spirit as we engage in management from a long-term perspective for the benefit of the nation, society and its citizens. With our eyes always on the next 100 years, we believe our mission is to pass along to the next generation the assets and principles that we have inherited from our ancestors.

It is said that the 21st century is the age of symbiosis with the environment. Trees provide a public benefit by absorbing and fixing carbon dioxide in the atmosphere. Furthermore, trees are a precious natural resource and by planting, growing and harvesting them, they can be enduringly renewed.

Sumitomo Forestry has contributed to the preservation of the environment through sustainable business centered on trees. In October 2016, our track record of reducing greenhouse gas emissions in our businesses was recognized with the selection of Sumitomo Forestry as a Climate Change A List company, the highest ranking given by CDP, a leading global SRI scoring entity. Sumitomo Forestry was one of 193 companies selected for this designation out of roughly 5,000 companies worldwide that had been reviewed by CDP. Of the 500 Japanese companies surveyed, we were one of the 22 selected for the highest ranking. As a recipient of this designation, we feel the weight of responsibility for fulfilling our role in the future, as it signifies the expectations that have been placed on us by society.

The Sumitomo Forestry Group contributes to people, communities and the global environment through its business activities, while aiming to be a company valued by society. Moreover, we engage in the sound management of our businesses so that they will form a bridge for society to advance into the future.

Under 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 will continue to contribute to the creation of a sustainable society through our distinctive business activities based on our long history of working with trees.

Ryu Yano
Chairman and Representative Director





Publication of the Integrated Report

Until recently, the Sumitomo Forestry Group used the Annual Report as a tool to communicate information about its business activities and financial statements and the CSR Report (Digest) as a collection of information and data apart from financial data about its social contribution activities.

As we maximize the use of our management resources to promote changes in our businesses, we aim to create business value and long-term growth while addressing social issues. To better explain our activities, we decided to publish the Integrated Report as an incorporation of both financial and non-financial information.

I hope that this report will serve as a tool that furthers your understanding of the Sumitomo Forestry Group.

Akira Ichikawa
President and Representative Director



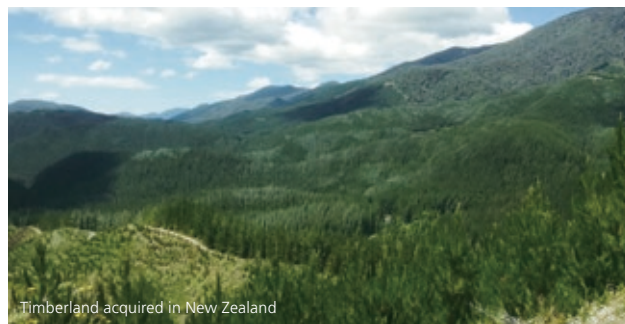
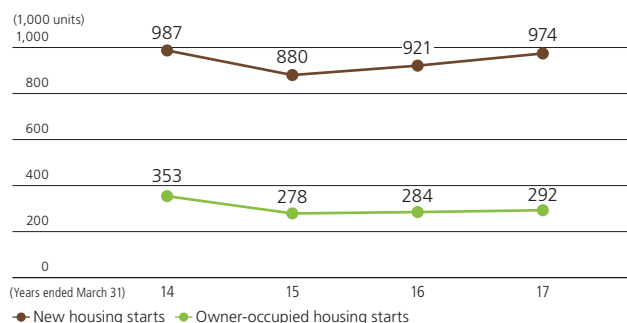
In fiscal 2016, net sales remained above ¥1,000.0 billion and recurring income surpassed ¥50.0 billion for the first time.

In fiscal 2016, the first year of the medium-term management plan, net sales increased 7.0% year on year to ¥1,113.4 billion, operating income climbed 79.4% to ¥54.0 billion and recurring income rose 89.6% to ¥57.8 billion, with profit attributable to owners of parent totaling ¥34.5 billion, an increase of 255.0%. These profit figures include ¥5.0 billion in actuarial differences in accounting for retirement benefits. Even after excluding this impact, recurring income was ¥52.9 billion, surpassing ¥50.0 billion for the first time ever, setting a new record high in profits.

By business, earnings power increased in the Timber and Building Materials Business and the domestic Custom-Built Detached Housing Business. In the Overseas Business, operational scale expanded on growth in the Overseas Housing and Real Estate Business. Moreover, we aggressively invested management resources in the overseas forestation business, the biomass power generation business, and the elderly care service business in a bid to diversify earnings sources. As a result, recurring income was higher than last year in all business segments.



Number of New Housing Starts in Japan



In fiscal 2017, we intend to make solid progress on the medium-term management plan with efforts to strengthen corporate governance and reform workstyles.

For the fiscal year ending March 31, 2018, we target consolidated net sales of ¥1,241.0 billion (up 11.5% year on year), recurring income of ¥52.5 billion (down 9.2%) and profit attributable to owners of parent of ¥33.0 billion (down 4.4%). Excluding the impact of actuarial differences, we anticipate flat growth in profits.

In the Housing Business, we are prioritizing efforts to boost order receipts by reassessing our business strategy, after orders languished last year for custom-built detached housing amid lackluster activity on the domestic market. More specifically, we are being more attentive to diverse customer needs, including for prices and specifications, for instance, by introducing The Forest BF as a product with more flexible room layouts, ceiling heights that can be chosen by the customer and new technologies enabling more open spaces than before.

In the Overseas Business, we expect to achieve ahead of schedule a target in our medium-term management plan for selling 8,000 homes in a year, thanks to the strong housing business in the United States and Australia. The housing markets in both countries are expected to continue expanding. The Sumitomo Forestry Group aims to accelerate organic growth by strengthening its responsiveness to these markets while reinforcing internal control systems and the corporate governance structure. In the Building Materials Manufacturing Business, we aim to expand the customer base, and will plan and propose products in tune with market demand.

In the Timber and Building Materials Business, we aim to expand our market share in the domestic distribution business and step up efforts in growth markets by expanding sales of wood chips for power generation and supplying building materials in non-housing markets, while working to develop business in new regions overseas.

In Other Businesses, we continue to expand the biomass power generation business, which has gained attention for its use of forest resources. Operations commenced at the Mombetsu Biomass Power Plant in December 2016 and at the Tomakomai Biomass Power Plant in April 2017, and they have begun to contribute to earnings. In the overseas forestation business, earnings have been steady at the timberland in New Zealand that we purchased in 2016, where the collective strengths of the Group have been focused on supplying raw materials for the MDF (medium density fiberboard) manufacturing business and selling logs to other countries. Including timberland in Papua New Guinea and Indonesia, the Sumitomo Forestry Group manages and owns a total of 230,000 hectares of timberland, and engages in sustainable forestation operations.

This fiscal year we are focusing our efforts on workstyle reforms and the creation of workplace environments where all employees can engage in highly motivated work while achieving a work-life balance. Apart from that, in July 2017, we revised our Basic Policy on Corporate Governance. We aim to enhance the dissemination of information and CSR activities, and reinforce the business risk management structure within the Company-wide governance structure.



Progress on the Medium-Term Management Plan

We are moving ahead on construction of a business foundation for **sustainable** growth through each business steadily implementing measures.

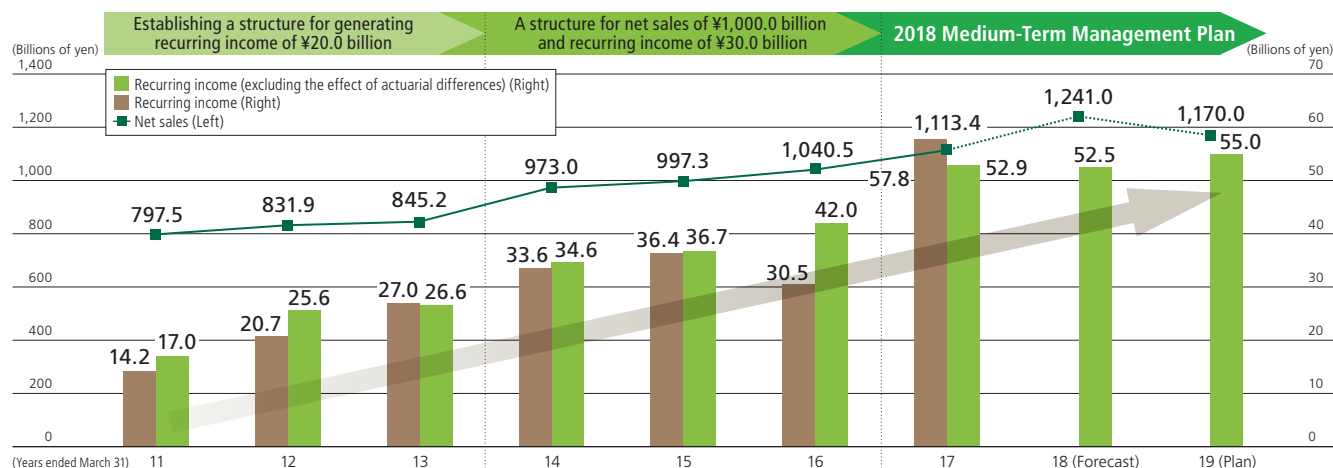
Consolidated Results

| | (Billions of yen) | | | |
|---|-------------------|------------------|---------------|--------------------|
| (Consolidated) | 16/3 results | 17/3 results | 18/3 forecast | 19/3 plan |
| Net sales | 1,040.5 | 1,113.4 | 1,241.0 | 1,170.0 |
| Recurring income | 42.0 (30.5) | 52.9 (57.8) | 52.5 | 55.0 |
| Profit attributable to owners of parent | 17.4 (9.7) | 31.1 (34.5) | 33.0 | 31.5 |
| ROE | 7.1% (4.0%) | 12.0% (13.3%) | 11.5% | 10.0% or higher |

* Figures in parentheses for 16/3 and 17/3 are based on financial results

We are solidifying our business foundation by “promoting change for a new stage” in accordance with our medium-term management plan. For fiscal 2018, management targets net sales of ¥1,170.0 billion, recurring income of ¥55.0 billion, profit attributable to owners of parent of ¥31.5 billion and ROE of 10% or higher. We expect to achieve our targets for net sales and profit attributable to owners of parent ahead of schedule in fiscal 2017. Looking beyond the achievement of numerical targets, however, we are striving to build a business structure that will ensure sustainable growth.

Earnings Trends





A timber yard at the Company-owned forest in Mombetsu, Hokkaido

In the domestic Housing Business, we aim to maintain and expand business scale despite forecasts that the market for newly built housing will shrink in tandem with the declining population in Japan. To achieve this goal, we need to bring about growth in the Apartment Business and the Renovation Business, as well as the Custom-Built Detached Housing Business, with marketing strategies that flexibly adapt to changes in the marketplace. Moreover, we will work to foster new profitable businesses with an eye on the future. As the value of timber and forests is reassessed domestically and globally, we will continue to concentrate on the MOCCA (timber solutions) Business, promoting the use of timber in the construction of non-residential buildings. A large number of local governments have made the revival of the forestry industry a pillar of their initiatives to revitalize local economies. At the national level as well, domestically produced timber is being increasingly used in the construction of public buildings. In this way, conditions are coming into place that will facilitate business, including cases where buildings are constructed from wood materials in various regions.

In the Overseas Business, we are promoting growth for each company in the Overseas Housing and Real Estate Business based on good relationships with partners that share our corporate philosophy. Depending on the region, climates and cultures can differ substantially, but by building housing and creating communities that respect the characteristics of the area, we will continue striving to develop abundant local communities. In addition, we aim to achieve further growth by generating synergies within the Group.

In Other Businesses, we plan to concentrate management resources in the business areas we expect to grow in the mid to long term, such as the forestation business, biomass power generation business, and elderly care service business. In the elderly care service business, our basic policy is to contribute to local communities by promoting business

that is closely connected to people's lives. In the domestic forestry business, we offer consulting services backed by our expertise in sustainable forestry, gained from managing Company-owned forests, and we are building a reliable supply structure for seedlings for forestation, which have been in short supply nationwide. We contribute to regional revitalization by stimulating the domestic forestry industry.

Basic Policy
1

Pursuing a strategy that anticipates societal changes

Basic Policy
2

Diversifying revenue sources in the global market

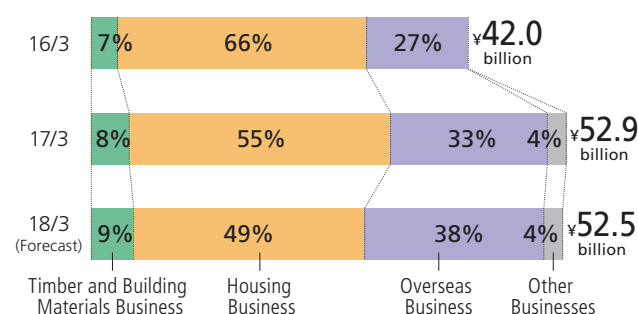
Basic Policy
3

Transforming the value of wood



A house from the Wisdom Group, an Australian Group company

Change in Recurring Income Ratio by Segment*1



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

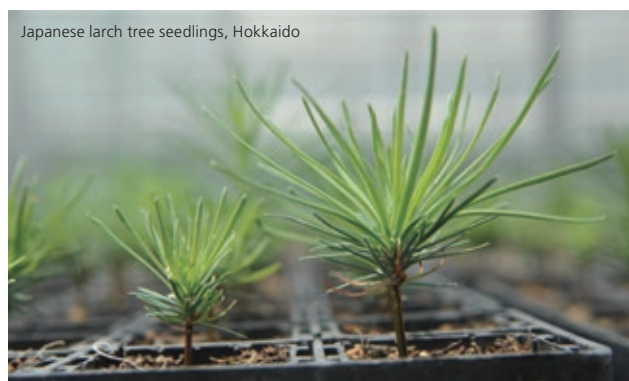
*2 Recurring income excludes actuarial losses.

Continuing to **create value** for society while aiming for long-term growth



Roughly 70% of Japan's land area is taken up by forests. Japanese people have always lived in close proximity to trees. Since before CSR (corporate social responsibility) was even a concept, we have felt a responsibility for contributing to society through our business activities, developing operations that take advantage of the attractive qualities of wood as a raw material. Our business began with the procurement of timber for copper mines, and we have spread the forestry business through the repeated planting of trees, while branching out into high-value-added businesses in manufacturing and distribution. Further diversifying into the Housing Business, we have steadily expanded our scope of operations while remaining centered on trees, entering overseas housing markets and the energy field in recent years.

The Tsukuba Research Institute is an indispensable asset for improving the Sumitomo Forestry Group's technologies and expanding the use of wood into new fields. Focusing on what only the Sumitomo Forestry Group can accomplish, having supported society together with trees and forests, we are uniquely positioned to create new value of wood and would like to generate value for society.

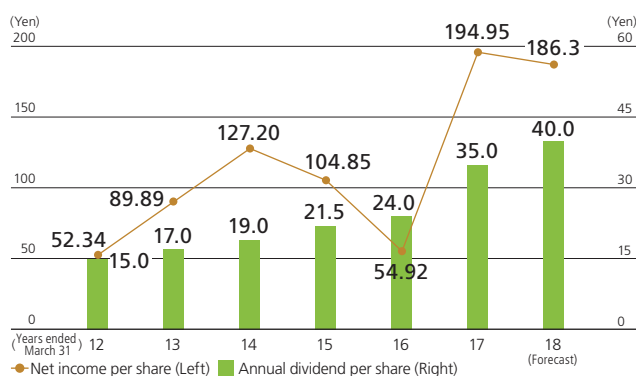


Intending to continue paying a steady dividend in accordance with profit levels

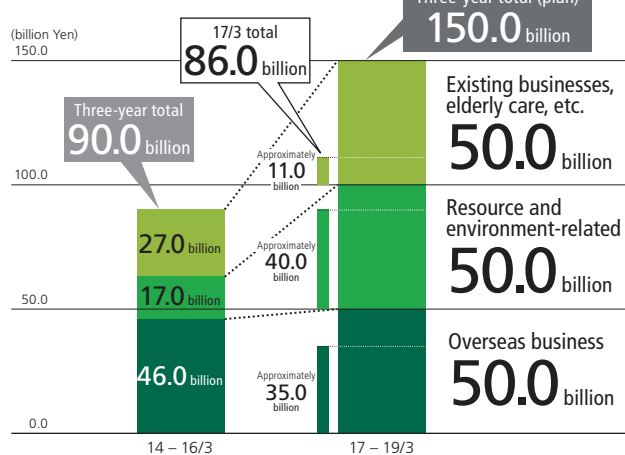
At Sumitomo Forestry, we consider providing returns to shareholders to be one of our most important management tasks. Our basic policy is to pay an appropriate level of stable, ongoing returns in line with earnings. Based on this policy, in the fiscal year ended March 31, 2017, we paid a dividend of ¥35 per share, an increase of ¥11 from the previous fiscal year and more than initially forecast. For the fiscal year ending March 31, 2018, we plan to increase the annual dividend to ¥40 per share for a sixth consecutive year of dividend hikes.

Over the three years of the medium-term management plan, we plan a record ¥150.0 billion in growth investment, in addition to R&D investment. Meanwhile, we will give comprehensive consideration for the balance between our business platform, financial condition, cash flow and other factors and continue to pay a stable dividend.

Net Income per Share and Annual Dividend per Share



Investment Trends



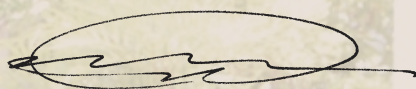
To Our Stakeholders

Sumitomo Forestry will respect diversity of human resources and continue to contribute to society.

In fiscal 2016, we created the 2018 Medium-Term Management Plan and we have been working toward the targets set forth in this plan. Since fiscal 2015, we have been making progress under our Mid-Term CSR Management Plan, reflecting CSR issues in management assessments and integrating CSR priorities with business activities. We have also embraced E (environment), S (social), and G (governance) as a concept in our operations, and will proactively communicate with stakeholders and continue to create value for society.

We intend to engage in high-quality business activities while striking a balance with the interests of people, society and the environment. At the same time, we will contribute to the creation of a future sustainable society through all types of services related to trees. We will also continue initiatives to foster a corporate culture where everyone respects one another and diverse ways of thinking, regardless of gender or nationality.

We ask for your continued understanding and support.

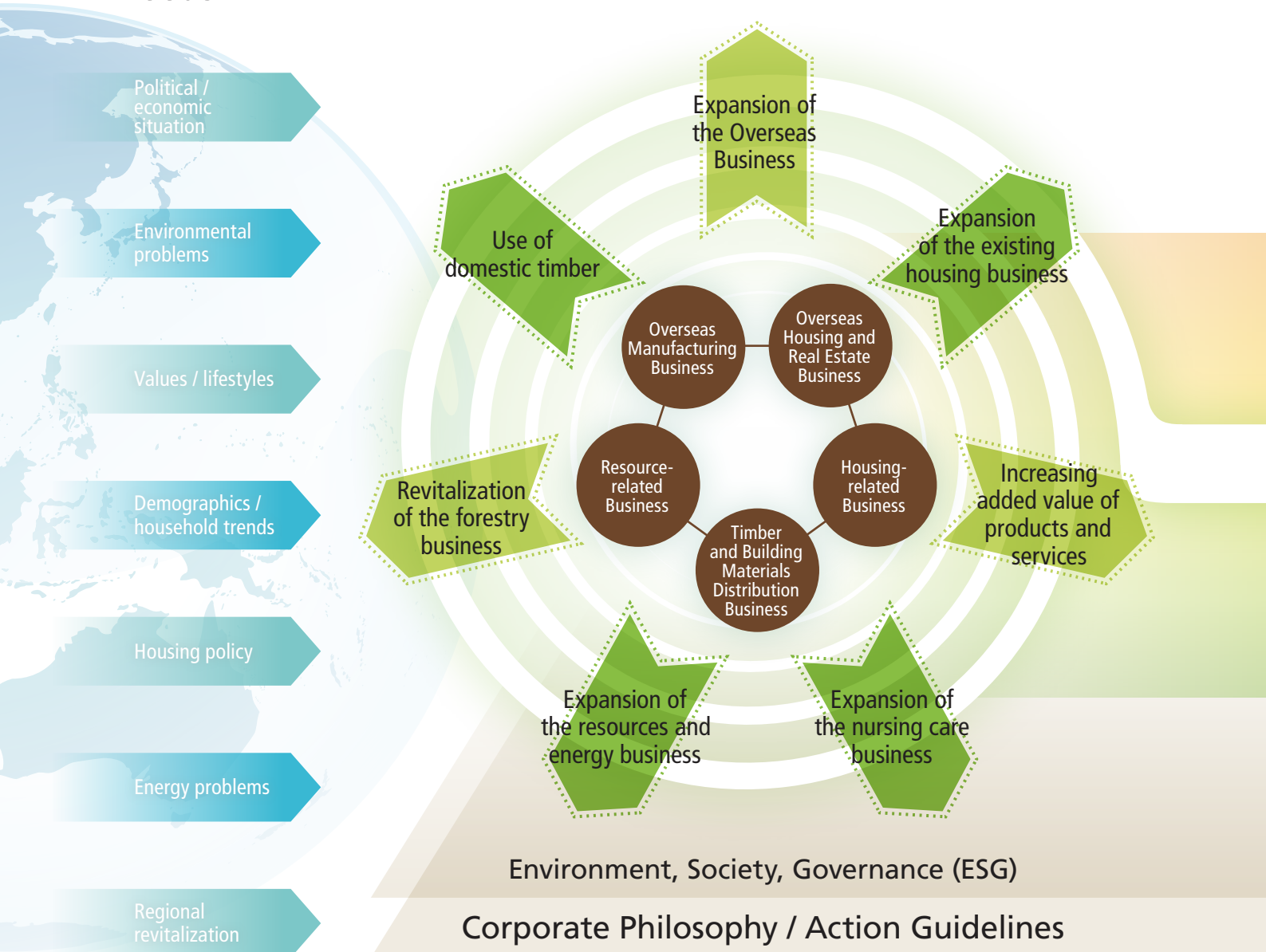


Akira Ichikawa
President and Representative Director



Social problems / needs

Business model



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

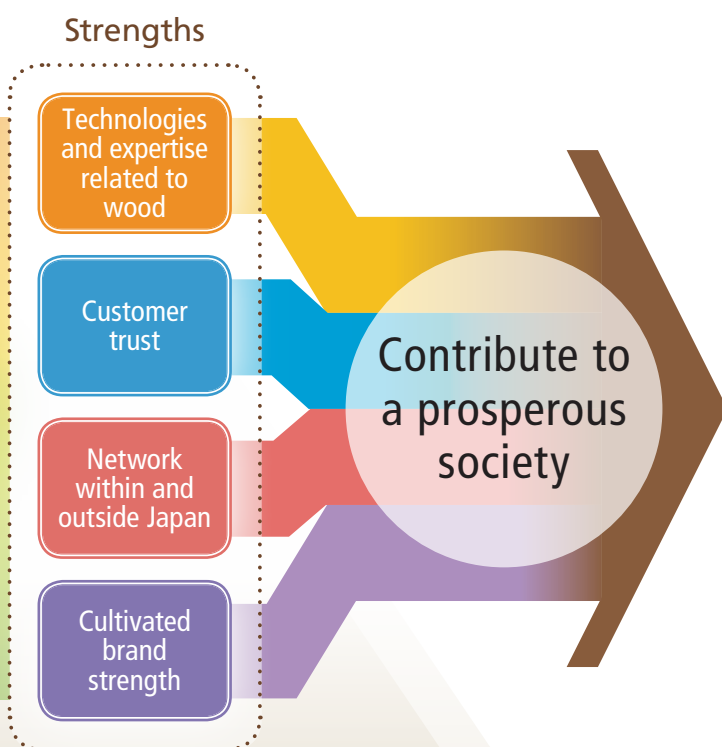
- **Sumitomo Spirit**
We conduct business that is beneficial to society based on the principles of integrity and sound management.
- **Respect for Humanity**
We work to create an open and inclusive corporate culture that values diversity.
- **Environmental Responsibility**
We are dedicated to effectively 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.

Value creation source

Value

Expansion of business opportunities and social contributions

All Stakeholders



Customers



Business partners



Shareholders and investors



Employees



Local communities



Etc.

We at the Sumitomo Forestry Group are engaged in various business activities pivoting on trees.

The Sumitomo Forestry Group has accumulated technologies and expertise related to wood over more than 320 years since our foundation. We use these and demonstrate our unique strengths of customer trust, a network within and outside of Japan and cultivated brand strength to create value through business and continue to contribute to a prosperous society.

Integrated Approach to Business and CSR

Contributing to the realization of a prosperous and sustainable society through its business is an integral part of the Sumitomo Forestry Group's corporate philosophy and Action Guidelines. Going beyond individual activities, Sumitomo Forestry integrates its CSR and business activities with the aim of increasing the corporate value of the entire Group.

We recognize the role expected of us by society and will continue putting into practice our corporate philosophy from the standpoint of stakeholders in our business, with the aim of sustaining growth for the Group while providing value to society.

Environment

As a renewable resource, trees absorb and fixate carbon dioxide in the atmosphere, and thanks to their low impact on the environment throughout their life cycle as a natural material, trees are able to support the creation of a sustainable society with their outstanding inherent environmental qualities. We contributed to the global environment through our business activities centered on trees.

Social

On developing operations globally, we emphasize communication with stakeholders to sincerely understand their expectations and requests and to also gauge the potential direct and indirect influence of our broad business scope, from upstream to downstream operations, centered on trees.

Governance

Under our Action Guidelines, one of which is "We 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, business execution and information disclosure. Through these efforts, we are further enhancing corporate governance in order to raise corporate value.

➔ See the Sustainability section on page 54 for details.

➔ See the Governance section on page 25 for details.

Origin of Sumitomo Forestry Group

"Allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state."

By the end of the 19th century, the forests around the Besshi Copper Mine were facing severe degradation and the then manager of the mine, Teigo Iba, drew up "The Large-Scale Reforestation Plan" to regenerate the rich greenery. This sustainable forest management is the origin of Sumitomo Forestry. The Sumitomo Spirit to "conduct business that is beneficial to society" continues being put into practice as a matter of course and not merely in the consciousness of business or CSR categories.

Sumitomo Forestry Group's Corporate Policies

The Sumitomo Forestry Group has established a Corporate Philosophy, Action Guidelines, and Code of Conduct, as well as such policies on the environment and procurement, in addition to various guidelines.

The Group's corporate policies serve as a compass for our more than 17,000 employees around the world as they engage in business.

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
- Respect for Humanity
- Environmental Responsibility
- Putting Customers First

Code of Conduct

- Fair and Transparent Corporate Activities
- Ethical Conduct
- A Respectful Healthy workplace
- Business Activities that Respect Society and the Environment

Sumitomo Forestry Group's CSR Material Issues

The Sumitomo Forestry Group undertakes effective CSR activities, first by identifying its CSR material issues and addressing both social and environmental issues through quantitative management on an individual business level with a focus on related granular issues.

In light of recent changes in the social landscape, in

March 2015, the Sumitomo Forestry Group designated the material issues, noted on the next page, it will focus efforts toward in realizing a sustainable society, having referred to the social issues highlighted by ISO 26000, the United Nations Global Compact, and SDGs, in addition to their relevance to key SRI evaluation criteria.

CSR Material Issues

Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration

The Sumitomo Forestry Group is engaged in business centered on wood, and is promoting sustainable forest management and sustainable procurement of wood both in Japan and overseas. Furthermore, since its fields of business are directly linked to forests that nurture biodiversity, the Group has positioned conserving biodiversity as one of its key CSR themes.

Promote the Reduction of the Environmental Impact of Our Business Activities

The Sumitomo Forestry Group is committed to reducing the volume of greenhouse gases emitted from our business activities such as the housing business and the manufacturing of wooden panels and building materials. At the same time, in an effort to reduce its environmental impact and to use resources effectively, the Group promotes the reduction, recycling and reuse of industrial waste.

Promote Development of Workplaces Where Diverse Personnel Can Work with Vigor and Enthusiasm, Demonstrating Their Abilities and Individuality

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion, disability, sexual orientation or gender identity, and is advancing maintenance of a safe and healthy workplace in which highly motivated employees can display their abilities.

Strengthen and Promote Risk Management and Compliance Mechanisms

The Sumitomo Forestry Group is working to reinforce the mechanism for managing business risks by constantly managing prioritized risks through the CSR & Risk Management Committee.

Promote the Development and Sale of Products and Services that are Safe, Reliable and Environmentally Conscious

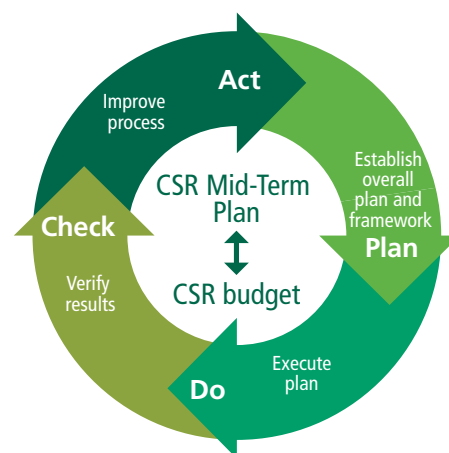
The Sumitomo Forestry Group believes that popularizing long-lasting, high-quality houses as social assets plays an important role in creating a prosperous society.

PDCA Management Using Evaluation Criteria (KPIs)

In fiscal 2015, we implemented our Mid-Term CSR Management Plan with fiscal 2020 targets for each of our CSR material issues.

Each Group company and division is given a CSR budget associated with its business with numerical targets for each fiscal year. Progress on and achievement of these targets is reflected in the business's performance metrics and management evaluations.

Through the steady implementation of the PDCA cycle, we aim to promote CSR management that is better integrated with our businesses.



Participation in the United Nations Global Compact

The ten principles of the United Nations Global Compact are based on globally established agreements, including the Universal Declaration of Human Rights and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. They incorporate support of and respect for the protection of human rights and the eradication of forced labor and child labor. In December 2008, we formally signed the United Nations Global Compact to declare our support for its principles.



Endorsing SDGs

The Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 are based on the Millennium Development Goals (MDGs) that were adopted in 2000. SDGs consist of 17 goals with 169 specific targets for countries and regions to address related to poverty, inequality, education, the environment and other issues. The ultimate aim is to create a better world. The Sumitomo Forestry Group supports these goals as a company with operations around the world.



MOCCA (Timber Solutions) Business

MOCCA (Timber Solutions) Business — Nurturing a New Earnings Pillar

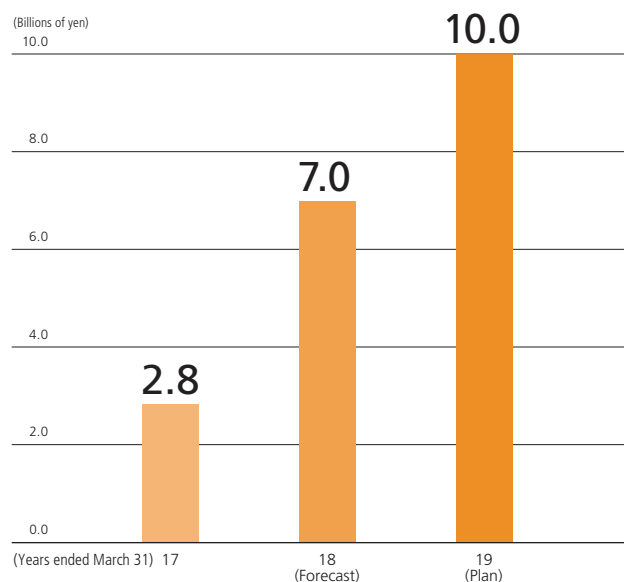
The Group is applying its expertise in wood, accumulated from its diverse businesses, and its technological and design capabilities, built up in the Housing Business, to grow the MOCCA (timber solutions) Business, which promotes the use of wood in non-residential building fields such as commercial facilities and public buildings.

Since the Act on Promotion of Use of Wood in Public Buildings took effect in 2010, there has been a noticeable increase throughout Japan in wooden buildings used for various purposes, mainly public facilities. The Sumitomo Forestry Group has accumulated a track record using wood to build elderly care, education and commercial facilities.



Timber is being used to build the New National Stadium Japan, the main venue for the 2020 Tokyo Olympics and Paralympics Games. Many local governments have singled out the revival of their forestry industry as a pillar for regional revitalization, raising expectations that the use of wood in buildings will become more common. Positioning the MOCCA (Timber Solutions) Business as a New Earnings Pillar, the Sumitomo Forestry Group targets orders received of ¥10 billion by fiscal 2018 (The year ending March 31, 2019).

Orders Received



Completion of Company's first timber elementary school building



In December 2016, we completed construction on the wooden Miyanomori Elementary School in Higashimatsushima City, Miyagi Prefecture. It is the first wooden elementary school constructed by Sumitomo Forestry, and one of the largest wooden structures we have ever built. The approximately 5,000 pieces of solid wood used in the structure were carefully selected from local forests. The school building is remarkable for bringing out the beauty of the natural wood, which fills the air with the scent of wood.

Miyanomori Elementary School was a reconstruction

project related to the move of an elementary school to higher ground after being devastated by the tsunami after the Great East Japan Earthquake. The children who entered the school after the earthquake have spent the last five years at a prefabricated temporary school set up for them. The new school was completed without incident in December 2016, coalescing the wishes of local residents and other people involved in the project to give the children an opportunity to learn at their new school before moving on to junior high school. The opening ceremony for the third academic term was held at the new school built out of wood.



Hybrid wooden buildings in cities

New efforts are underway to build wooden buildings of medium height on small narrow plots of land in cities for use as business offices or tenant buildings. In Kokubunji, Tokyo, we built a seven-story office building with a steel frame coated in fire-proofed timber. As a symbol of the community, the building is a beautiful sight to behold on a narrow slice of land in front of the train station, attracting people and creating a flow of people.

Wood Biomass Power Generation Business

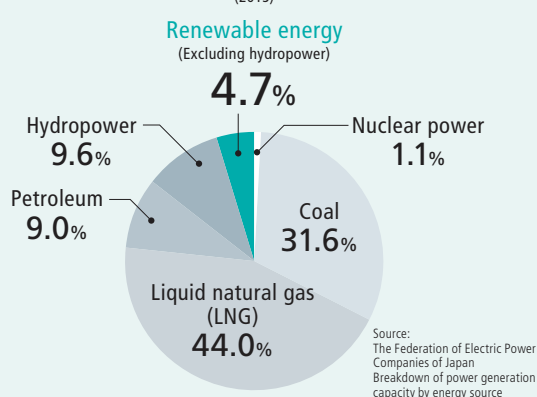
Growing Demand for Renewable Energy

More than 80% of Japan's current power generation relies on fossil fuels such as natural gas, coal and oil, most of which is imported from overseas.

In recent years, the energy market has been destabilized against a backdrop of increased demand due to economic development in emerging countries and geopolitical problems. In Japan, a country with low energy self-sufficiency, diversifying its sources of energy and securing reliable supplies of energy have become major issues. Moreover, reducing CO₂ and other greenhouse gases, caused by the increasing use of fossil fuels, has become a pressing issue the world over. Use of renewable energies has increased and feed-in-tariff (FIT) systems have boosted this.

In the Japanese government's outlook for energy supply and demand in fiscal 2030, the nation aims to increase the ratio of renewable energy and decrease the ratio of nuclear power generation in the mix. Demand for biomass power generation is expected to strengthen.

Japan's Electric Power Generation Mix by Energy Source (2015)



2030 Renewable Energy Ratio

| Energy source | Ratio |
|---------------|------------------|
| Hydroelectric | Approx. 8.8-9.2% |
| Solar | Approx. 7.0% |
| Biomass | Approx. 3.7-4.6% |
| Wind | Approx. 1.7% |
| Geothermal | Approx. 1.0-1.1% |
| Total | Approx. 22-24% |

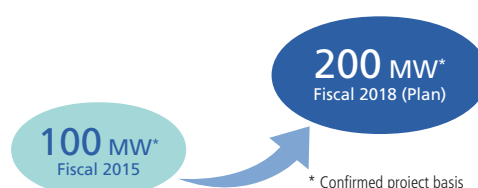
Source: Ministry of Economy, Trade and Industry's Long-Term Energy Supply and Demand Outlook (July 2015)

Wood Biomass Power Generation Business

The Sumitomo Forestry Group's Wood Biomass Power Generation Business procures fuel based on the characteristics of the region, such as wood waste generated by home building and remodeling in cities or unused wood materials from forests. Unused timber from domestic forests* is a resource that has been underused to date. Using these materials as fuel to generate power is a socially significant endeavor that should help maintain the environment in domestic forests, revive the forest industry, and revitalize regions through the creation of jobs.

Procuring fuel for wood biomass power generation is also a business field that can leverage the distribution network of the Group's Timber and Building Materials Business, which has been built up over many years both in Japan and overseas.

The Sumitomo Forestry Group is rolling out a business structure for expanding renewable energy power generation capacity to 200 MW by fiscal 2018. We intend to expand the renewable energy business, centered on wood biomass power generation operations, while encouraging a rethinking of the value of timber as a resource and helping reinvigorate the forest industry. At the same time, we aim to help solve energy problems.



* Unused timber from forests
Timber from forest thinnings and timber left unused because of undesirable bending and small diameters after logging can degrade forest environments if left alone, making it harder to manage forests and plant new trees.

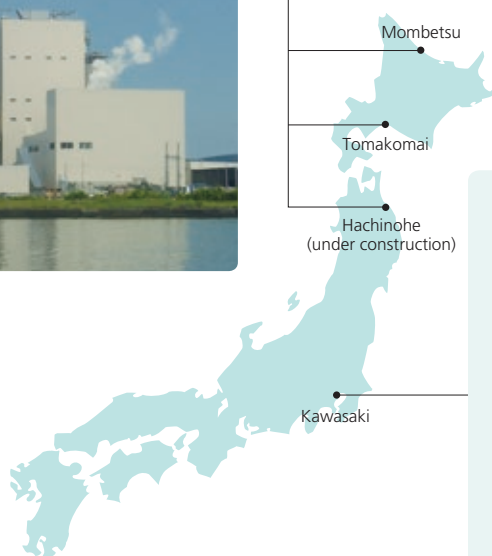


Unused timber from forests (Hokkaido)

Mountainous biomass power generation

| | Mombetsu Biomass Power Plant | Tomakomai Biomass Power Plant | Hachinohe Biomass Power Plant |
|---------------------------|---|---|--|
| Start of operation | December 2016 | April 2017 | 2018 (planned) |
| Investment ratio | 51% | 20% | 52% |
| Power generation capacity | 50 MW | 5.9 MW | 12 MW |
| Fuel | Unused timber from forests, other (palm coconut shells, coal) | Unused timber from forests | Unused timber from forests, other (timber from forest thinnings, palm coconut shells) |
| Features | Use unused timber taken from forests within a 75 km radius of the power plant, which is turned into wood-chip fuel at a factory adjacent to the plant | Use wood chips that are 100% obtained from unused timber from forests in Hokkaido | Plan to use mainly timber from forest thinnings in the Sanpachi, Kamikita and Shimokita districts of Aomori Prefecture, timber scraps and timber from forest thinnings along railroad tracks or in the vicinity of railroad tracks |

Mombetsu Biomass Power Plant (Hokkaido)



Kawasaki Biomass Power Plant (Kanagawa)



Urban biomass power generation

| | Kawasaki Biomass Power Plant |
|---------------------------|--|
| Start of operation | February 2011 |
| Investment ratio | 34% |
| Power generation capacity | 33 MW |
| Fuel | Waste wood materials from construction, other (discarded pallets, pruned branches) |
| Features | The urban biomass power generating Kawasaki Biomass Power Plant, Japan's largest plant generating power fueled solely by biomass, mainly uses recycled chips produced from waste wood materials from construction or discarded pallets from markets. Various types of environmental equipment have been installed and the facility clears the strict environmental standards set by the city of Kawasaki |

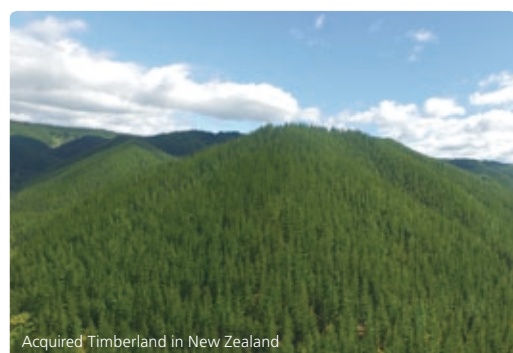
Overseas Forestation Business (New Zealand)

Realizing a Sustainable Supply of Timber

It is said that less than half of the timber used in industrial production around the world comes from sustainable plantation forests. The bulk of global demand for timber is likely to continue to be satisfied with supply from natural forests, in other words, sources other than plantation forests. The value of sustainable plantation forests is likely to be appreciated more as awareness of environmental preservation grows.

In June 2016, the Sumitomo Forestry Group purchased about 31,000 hectares of timberlands and related assets in New Zealand. The purchased timberlands comprise plantation forests of radiata pine located in Nelson, on New Zealand's South Island. Radiata pine is a fast-growing tree that can be harvested every 25 years or so, enabling a reliable supply. The tree features highly uniform quality and versatility, making it a price competitive timber. We expect the forests to be a stable source of long-term income, and through planned reforestation, a sustainable source of timber that can be used basically forever.

Nelson Pine Industries Ltd. (NPIL) is a Group company with a wood fiberboard and engineered wood production plant in Nelson. NPIL will be able to deliver high-quality products thanks to a reliable supply of quality timber from the acquired timberlands. The timber from the forests and NPIL's products will be sold through the Group's overseas distribution network based in Singapore to countries around the world, mainly in parts of Asia including China where strong demand is expected, India where the population is growing sharply, and Southeast Asia where economic expansion looks likely. Synergies across businesses are anticipated to emerge. We aim to increase the value added to the business as a whole by developing a business model contained entirely within the Group's network, from the supply of timber to production and distribution.



Governance

For detailed information about corporate governance, please refer to our website.

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

Board of Directors and Statutory Auditors

(as of June 23, 2017)



Directors

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)

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
Apr. 2017
In charge of Environment and Resources
Division, also overseeing Lifestyle Service
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 of AEON Bank, Ltd.
(current position)
Jun. 2016
Outside Director of the Company (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)

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

* Outside Statutory Auditor

Hidekazu Tanaka Statutory Auditor (full-time)

Noriaki Toi Statutory Auditor (full-time)

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*

In charge of Secretary, Corporate Communications
and CSR

Shigeru Sasabe Executive Vice President and Executive Officer*

Divisional Manager of Overseas Business Division

Ken Wada Senior Managing Executive Officer*

Oversees Environment and Resources Division and
Lifestyle Service Division, also in charge of TOP
(Tokyo Olympics Paralympics) 2020

Tatsuru Satoh Senior Managing Executive Officer*

Oversees Corporate Planning and Finance, also
in charge of General Administration, Personnel,
Information Systems, Intellectual Property, Internal
Audit, and Tsukuba Research Institute

Akihisa Fukuda Managing Executive Officer*

Divisional Manager of Timber and Building
Materials Division

Toshiro Mitsuyoshi Managing Executive Officer*

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

Kunihiko Takagiri Managing Executive Officer

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

Akira Sekimoto Managing Executive Officer

Divisional Manager of Environment and Resources
Division



* Representative Director ** Outside Director

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
 Apr. 2017
 In charge of Secretary, Corporate Communications, CSR (current position)

Shigeru Sasabe
 Director*

Apr. 1977
 Joined the Company
 Jun. 2008
 Executive Officer
 Apr. 2010
 Managing Executive Officer
 Jun. 2010
 Director
 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)

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)
 Apr. 2017
 Oversees Corporate Planning and Finance (current position)

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.
 Apr. 2017
 Divisional Manager of Housing Division (current position)

* Doubles as Director and Executive Officer

Kanpei Tokunaga
 Managing Executive Officer

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

Ryoji Machino
 Executive Officer

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

Nobuyuki Katayama
 Executive Officer

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

Takahisa Higaki
 Executive Officer

Divisional Manager of Lifestyle Service Division

Tatsumi Kawata
 Managing Executive Officer

In charge of Corporate Planning, Finance, and General Manager of Corporate Planning Department

Masayuki Tabuse
 Executive Officer

Deputy Divisional Manager of Timber and Building Materials Division

Soichiro Kitamura
 Executive Officer

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

Koichi Shimizu
 Executive Officer

General Manager of Information Systems Department

Atsushi Kawamura
 Managing Executive Officer

In charge of North American Business, and Deputy Divisional Manager of Overseas Business Division

Akio Numazaki
 Executive Officer

Director and Senior Managing Executive Officer of Sumitomo Forestry Home Tech 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)

Corporate Governance

| | | |
|--|--|--|
| Organizational Structure Company with a Board of Directors and a Board of Statutory Auditors | Number of Directors 10 Of whom two are outside directors (the ratio of outside directors is 20%) | Number of Statutory Auditors 5 Of whom three are outside statutory auditors (the ratio of outside statutory auditors is 60%) |
| Number of Independent Directors and Auditors 5 | Number of Board of Directors Meetings 15 (fiscal 2016) | Outside Directors' Board of Directors Meeting Attendance Rate 100% |
| Adoption of the Executive Officer System Yes | Nomination and Remuneration Advisory Committee Yes | Accounting Auditor Ernst & Young ShinNihon LLC |

Fundamental Policy

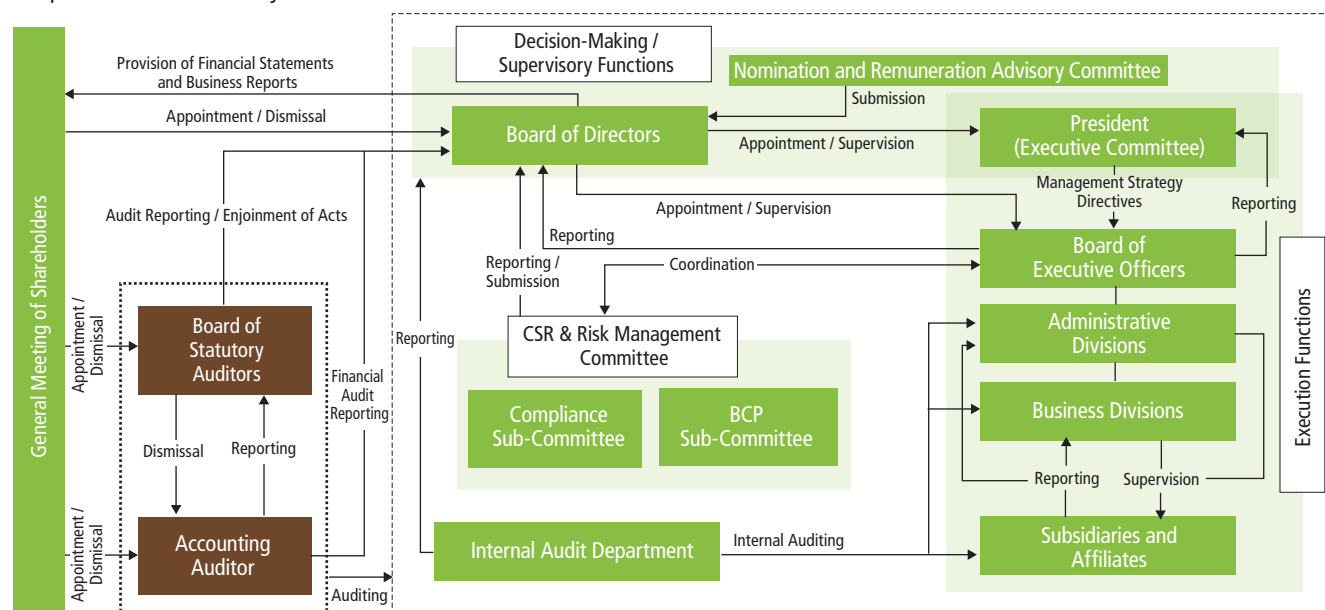
The Sumitomo Forestry Group's corporate philosophy states, "The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services." Under our Action Guidelines, one of which 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 enhancing and strengthening corporate governance in order to

continuously increase 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 Directors (1 male and 1 female), and a Board of Statutory Auditors comprising 5 statutory auditors (5 male), including 3 Outside Statutory Auditors. Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from execution 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, an advisory body for the president, holds a meeting twice a month, in principle, and is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2016, the Board of Directors met 15 times and the Executive Committee 24 times. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

■ Statutory Audit System

Each statutory auditor audits 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 inspectors, 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 managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as Internal Audit Department, receive reports regularly from the divisions responsible for risk management and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by 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 at the Executive Committee meeting so that all statutory auditors and Outside Directors 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 operations from the perspective of shareholders.

In fiscal 2016, the Board of Statutory Auditors met 14 times and Group Board of Statutory Auditors 6 times.

■ 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. An 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 comprehensively verify the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards, referring to opinions from the accounting auditor. 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 2016)

| Position and Name | Board of Directors Meetings (convened 15 times) | | Board of Statutory Auditors Meetings (convened 14 times) | |
|---|--|-----------------|---|-----------------|
| | Number of meetings attended | Attendance rate | Number of meetings attended | Attendance rate |
| Director: Junko Hirakawa | 15 | 100% | — | — |
| Director: Izumi Yamashita | 12 ^{*1} | 100% | — | — |
| Statutory Auditor: Satoshi Teramoto | 15 | 100% | 14 | 100% |
| Statutory Auditor: Katsuhide Kurasaka | 15 | 100% | 14 | 100% |
| Statutory Auditor: Yoshitsugu Minagawa | 12 ^{*2} | 100% | 11 ^{*2} | 100% |

*1 Director Izumi Yamashita has attended all Board of Directors meetings since his appointment was approved at the 76th Ordinary General Meeting of Shareholders held on June 24, 2016.

*2 Statutory auditor Yoshitsugu Minagawa has attended all Board of Directors and Board of Statutory Auditors meetings since his appointment was approved at the 76th Ordinary General Meeting of Shareholders held on June 24, 2016.

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 have been playing an appropriate role in strengthening the Company's corporate governance by, among other things, 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 in strengthening the Company's corporate governance by, among other things, making recommendations to management. |
| Satoshi Teramoto Assumed office in June 2010 | As a certified public accountant, he has a high degree of specialized knowledge of and abundant practical experience in finance and accounting, and has been judged to have been conducting appropriate audits of the Company's execution of business. |
| Katsuhide Kurasaka Assumed office in June 2014 | He has abundant experience in management of manufacturing workplaces in Japan and abroad in addition to deep insight as a business 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 of directors is comprised of monthly remuneration and stock-based compensation stock options as basic remuneration and a bonus as performance-linked remuneration. Remuneration of directors is made within an amount set by a resolution at the Ordinary General Meeting of Shareholders and the total amount is calculated with consideration to the level of consolidated recurring income and other management indicators.

(Monthly Remuneration)

At the 76th Ordinary General Meeting of Shareholders held on June 24, 2016, passage of a resolution set remuneration at up to ¥40 million per month (including an amount up to ¥5 million per month for Outside Directors).

(Stock-based Compensation Stock Options)

Stock acquisition rights are allocated to directors (excluding outside directors) and executive officers as stock-based compensation stock options. These stock-based compensation stock options can be exercised upon expiration of a certain restriction period of exercise. The 75th Ordinary General Meeting of Shareholders passed a resolution on June 23, 2015, limiting the amount of remuneration obtained by exercising stock acquisition rights as stock options to ¥100 million.

(Bonuses)

At the annual Ordinary General Meeting of Shareholders, a set amount is approved.

Remuneration is not made as employees or compensation for the performance of other duties. In addition, 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.

Monthly remuneration of statutory auditors was set at up to ¥8 million per month as decided upon at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014.

Remuneration (fiscal 2016)

(Millions of yen)

| | Total Remuneration | Total Remuneration by Type | | |
|--------------------|--------------------|----------------------------|--|---------|
| | | Monthly Remuneration | Stock-based Compensation Stock Options | Bonuses |
| Directors | 515 | 336 | 33 | 146 |
| (8) | | | | |
| Statutory Auditors | 45 | 45 | — | — |
| (2) | | | | |
| Outside Officers | 52 | 52 | — | — |
| (6)* | | | | |

*The aforementioned includes 1 statutory auditor who resigned effective at the end of the 76th Ordinary General Meeting of Shareholders held on June 24, 2016.

■ System to Ensure Management Transparency

(Basic Policy on Disclosure)

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

(Initiatives to Encourage Execution of Voting Rights)

The Company sends out notices three weeks prior to the General Meeting of Shareholders and avoids dates when many companies hold their 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, Inc. for proxy voting.

(Disclosure of a Wide Range of Information)

On the Company's website, we release a wide range of information related to our investor relations (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 IR activities to communicate management vision, the state of operations, financial position and other information timely and clearly 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 continuously. 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 entitled "Our Values and Ideals" summarizing the ethical behavior guidelines and values that all officers and employees of the Group should follow, and has established a system to secure the soundness of 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 CSR & Risk Management Basic Regulations. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. The Company has established the CSR & 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. The committee also discusses operational status of the Action Guidelines based

on the corporate philosophy and confirms the existence of a corporate culture and atmosphere that respect the gist and spirit of the Action Guidelines. Established under the umbrella of the CSR & 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 staff, 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 the management conducts management reviews in order to reflect the results in business execution. In fiscal 2016, the CSR & Risk Management Committee convened four times, the Compliance Sub-Committee twice, and the BCP Sub-Committee four times, and the Board of Directors received reports from them four times.

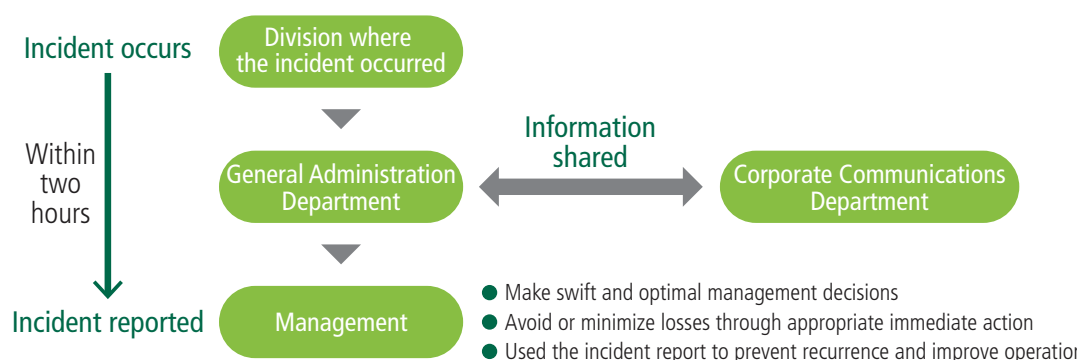
*From fiscal 2017 Risk Management Basic Regulations have been revised to become CSR & Risk Management Basic Regulations. In conjunction with this revision the Risk Management Committee has been restructured as the CSR & Risk Management Committee.

(Rapidly Identifying and Responding to Risk)

In addition to the normal reporting line, we operate a two-hour rule system designed to rapidly and accurately relay information to the management via the headquarters' risk management division in the event of an emergency situation that may cause 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 minimize losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same incident 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.

Two-hour Rule and Use of Risk Information



■ Compliance Promotion System

The Compliance Sub-Committee under the CSR & 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 staff 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 2016 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 permits and licenses 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 up-to-date knowledge, improve their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities of the sub-committee are reported monthly to the Statutory Auditors and the Internal Audit Department every month. Critical Group-wide matters and risk information are shared with the statutory auditors of each Group company through the Group Board of Statutory Auditors. We maintain a compliance promotion framework through an approach on and off the business execution line.

(Internal Audits)

Of the Group's approximately 200 business sites within and outside of Japan, the Internal Audit Department selects about 60 business sites each year to conduct an internal audit considering 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 officer in charge of internal audits and statutory 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 officer in charge of internal audits.

Business Continuity Management

■ System for Managing Business Continuity

Sumitomo Forestry has established the BCP Sub-Committee to counter risks that could interrupt operations, such as major natural disasters and outbreaks of new strains of influenza. The Company promotes initiatives based upon business continuity plans (BCP).

In fiscal 2016, Sumitomo Forestry held four BCP Sub-Committee meetings. Critical initial responses in the event of a powerful earthquake, in particular the one striking directly underneath the Tokyo metropolitan area, were confirmed as adequate. Various drills and training programs were planned and implemented.

(BCP Simulation Training)

To overcome the chaos immediately following a large-scale earthquake and to transition quickly to action ensuring business continuity, it is vitally important that the people in charge can initially respond and make decisions according to the situation at hand. Since fiscal 2011, the Sumitomo Forestry Group has conducted BCP Large Scale Earthquake Countermeasures Simulation Training for the persons in charge at each domestic Group company. More than 460 people have participated in this training to date. The aim of this training is to get participants to experience a simulated "crisis" in an earthquake and to acquire an awareness of the issues, by getting them to make spur of the moment decisions again and again based on tough hypothetical scenarios. Another aim of the exercise is to share an awareness of risks and to strengthen cooperation in an emergency.

Systems have also been put in place so that, in situations where employees find getting to work difficult, payment of salaries, payments to business partners and other important business operations can still be carried out from their home or other remote locations while maintaining a high level of security. Simulation drills for this are also conducted every year.

■ Ensuring Employee Safety

A portable guide for risk response has been distributed to all



BCP simulation training

Group employees with instructions for staying safe in the event of an earthquake and how to communicate whether they are safe. A safety confirmation system is also maintained with links to weather information so that the safety of employees can be ascertained quickly using various routes. Safety confirmation drills are conducted at domestic Group companies every year. In fiscal 2016, a total of 12,946 people participated in these drills. In the event that people are unable to return home after a major earthquake, emergency supplies have been stockpiled at all Group bases. In particular, at business sites in major cities where a large number of people may be unable to return home, three days of emergency supplies have been stockpiled at workplaces.



Portable guide for risk response

■ Supply Chain Business Continuity Initiatives and Continuity of Customer Service

In readiness for the potential disruption of its Housing Business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status information with business partners including component makers and building contractors. By enabling advanced procurement of materials and production in this way, the Company is striving to reduce the risk of a disruption to operations. We also review our suppliers of building and construction materials with regard to business continuity issues, including whether they have planned alternative supply routes in the event of a disaster.

Sumitomo Forestry has call centers in Tokyo and Fukuoka that are able to provide 24-hour call center services, developing a mechanism whereby either call center can back up the functions of the other call center in the event it is affected by a disaster. By managing information for each base through a unified emergency system, the Company can share disaster information pertaining to owners nationwide, enabling a quick response to requests for repairs.

Intellectual Property Management

■ Intellectual Property Policy

Imitation and unauthorized use of trademarks and copyrights have become one of the risks for corporate management. The Sumitomo Forestry Group strives to protect the intellectual property it creates, such as by claiming rights for proprietary technology and concealing its know-how.

The Group is also putting effort into preventing rights violations and infringements by or to our group. It is working to raise awareness about compliance among all Group employees, not least those in the research and development departments and in the marketing and planning departments.

■ Systems for Managing Intellectual Property

Sumitomo Forestry established the Intellectual Property Department as the organization in charge of managing intellectual property with a number of patent lawyers on the department payrolls. In addition to providing support for creating intellectual property, filing applications and preserving rights and concluding various technology-related contracts, the department also raises awareness of intellectual property among employees, conducts internal and external trend analysis, and makes recommendations for the direction of research and development. Furthermore, the Company has also established an Intellectual Property Hotline and makes it well known among employees.



Poster: Intellectual Property Hotline

■ Initiatives for Intellectual Property

(Intellectual Property Education)

The Intellectual Property Department conducts classroom training for all Group employees who can access the intranet, for the purpose of promoting the creation of intellectual property and preventing any conflicts with the rights of other companies. Each year since fiscal 2012, a compliance-focused e-learning program for all Group employees has been conducted using the intranet. In addition, every year, Sumitomo Forestry enlists employees from research and development departments, including at Group companies, and sends them to training provided by external organizations, such as the Japan Intellectual Property Association.

In fiscal 2016, the Company held nine study sessions on intellectual property for the Tsukuba Research Institute and employees in charge of R&D at business divisions and subsidiaries in an effort to ensure thorough compliance and risk management. In addition, training on trademarks was conducted four times, targeted at employees in charge of public relations in each business division and affiliated company with the aim of raising awareness of the importance of trademarks and key issues.

(Performance Awards)

The Group gives out awards every year based on the Performance Award Code to recognize groups and individuals who have contributed through intellectual property activities to enhancing the Group's business competitiveness through inventions and other notable achievements. An award was made to one person during a commendation ceremony held for activities during fiscal 2016.

(Education through Company Intranet)

Sumitomo Forestry has set up a Company intranet site called Intellectual Property Farm. The site provides Sumitomo Forestry Group employees with a fundamental grounding in intellectual property as well as a simple explanation about trademark rights that employees ought to understand when conducting business activities. The Company also uses the site to post information on the latest topics concerning intellectual property.



Company intranet site Intellectual Property Farm

Information Security

Information Security Policy

To ensure the confidentiality, integrity and availability of its information systems, Sumitomo Forestry has raised the security level of its systems while maintaining the regulation and technology aspects of information security in a mutually complementary manner. Based on the recognition that the protection of customer information in particular is of utmost importance, we continue to conduct employee training to ensure the rules are widely understood, and verify their levels of awareness.

With respect to the regulation aspects of information security, the Sumitomo Forestry Group Information Asset Protection Guidelines for Group companies in Japan have been established. At the same time, we have prepared a checklist based on these guidelines, and every year the person responsible for the department in charge of information systems at each Group company checks the level of information security. Guidelines have also been formulated for overseas Group companies.

As for education on information security, we have made it compulsory for all Group employees with access to our intranet (including temporary and part-time employees) to take an e-learning course on information security every year.

With respect to the technological aspects of information security, the Group has encrypted all the data on computers that are taken outside the Company and restricts which data can be copied from its computers.

Information Security Management System

Under the supervision of the executive officer in charge of information systems, the general manager of the Information Systems Department promotes information security measures for the Sumitomo Forestry Group, such as the formulation and management of rules and regulations, the proposal and implementation of technical measures, the education and training of employees, and the investigation of accidents and implementation of countermeasures. Furthermore, the person responsible for each department provides guidance and management for the execution of that department's operations as the information security supervisor, and assigns an information security officer who is the working-level manager for the department's information security. We also hold regular meetings of the Affiliated Companies IT Managers Council attended by the persons responsible for departments in charge of information systems at Group companies in Japan. The council checks the content of the guidelines and promotes the introduction of security systems.

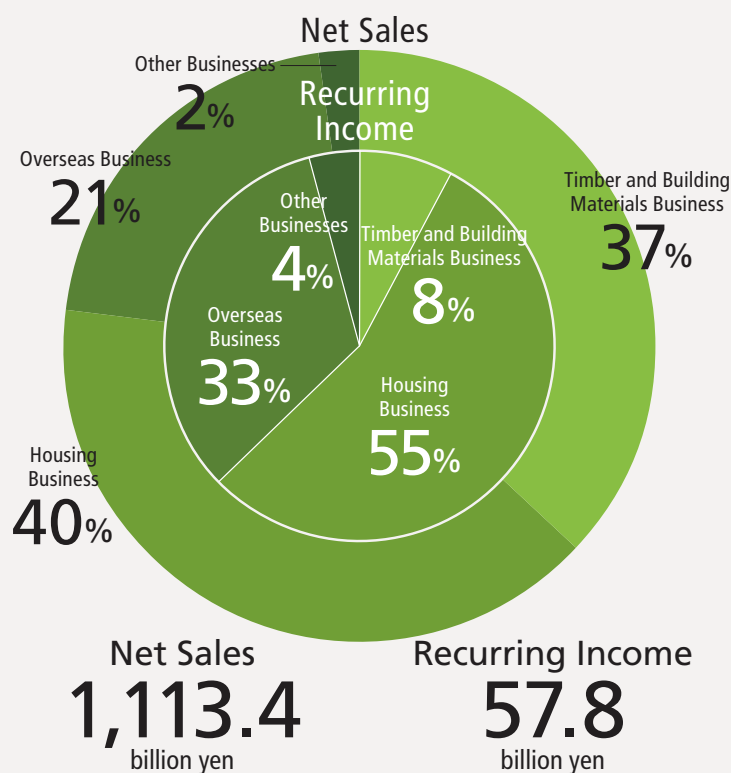
Initiatives to Strengthen Information Security

In recent years, information security threats have grown, as shown by the increase in personal information leaks and targeted email attacks. As a countermeasure, the Sumitomo Forestry Group greatly increased investments in strengthening information security in fiscal 2016, developing multi-layered defense systems to enhance security. All employees were given training on targeted email attacks as well. The Security Information Office, which was set up in May 2016 at Sumitomo Forestry Information Systems Co., Ltd., leads efforts to improve responses to employee inquiries about cyberattacks and expand security training for all employees.

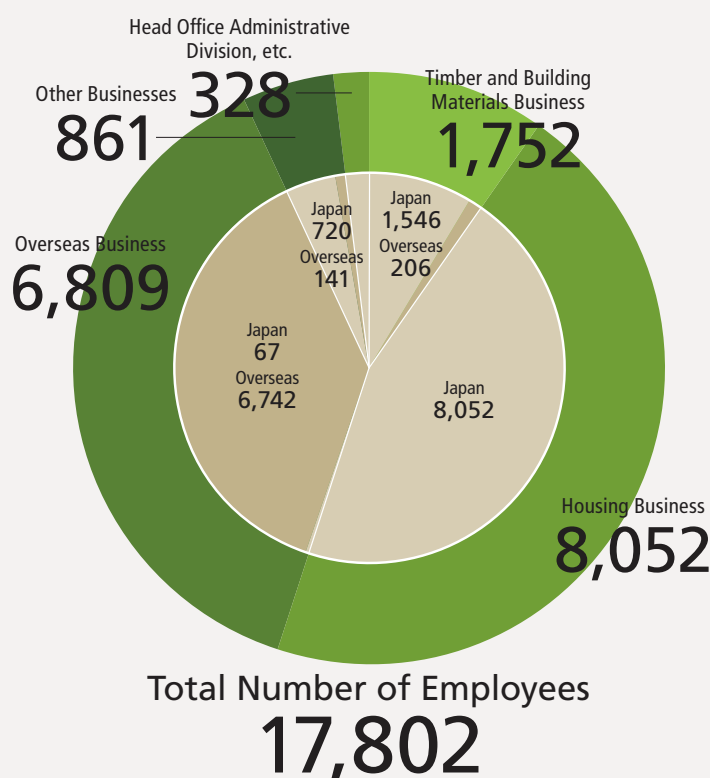
In-house e-Learning



Composition by Segment (Year ended March 31, 2017)



Number of Employees (As of March 31, 2017)



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.

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

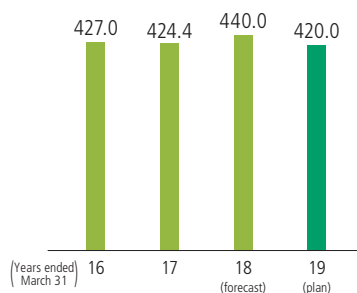
We operate the Manufacturing Business, which is engaged in building materials manufacturing, mainly in the Pacific Rim, including Southeast Asia, Oceania and the United States, and the Housing and Real Estate Business, mainly in the United States and Australia.

Other Businesses

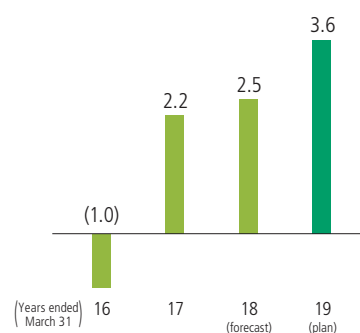
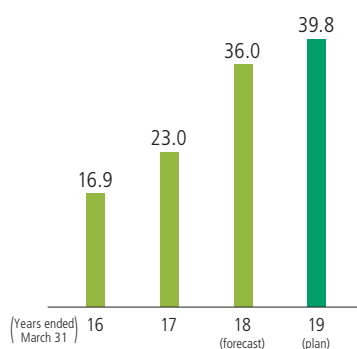
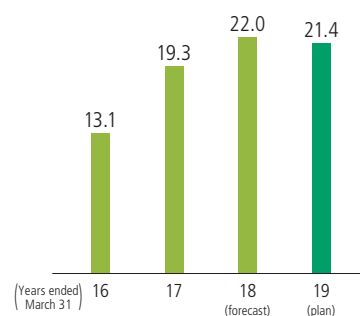
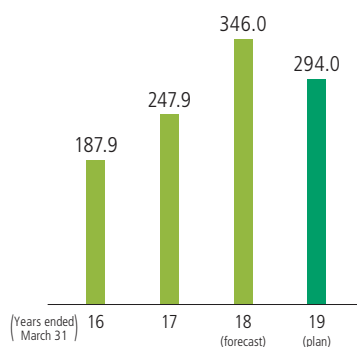
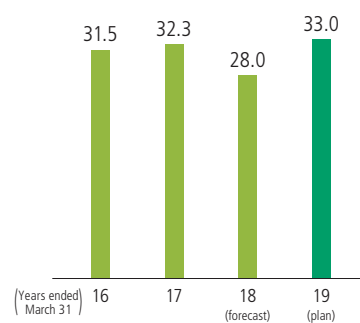
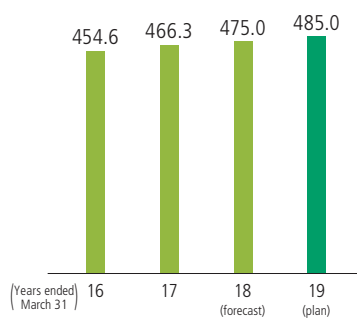
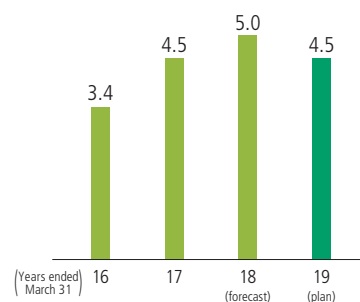
We operate the forestation business, the biomass power generation business, the private-pay elderly care facilities business, the lease business, as well as various service businesses including the insurance agency business mainly for our housing business customers. We also manufacture and sell farming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



Net Sales (Billions of yen)



Recurring Income (Billions of yen)



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

Timber and Building Materials Business

Fiscal 2016

Sales

424.4 billion yen

Recurring Income

4.5 billion yen

Percentage of Total Sales

37 %

Basic Policy

Proactive approach to domestic growth markets and overseas markets, and promoting the distribution of sustainable timber resources

Sumitomo Forestry has held 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, one of its greatest strengths lies in its procurement capabilities using its global network.

We continue to focus on expanding our market share and ensuring the quality and legality of the products we handle based on the Sumitomo Forestry Group Procurement Policy. At the same time, the Company is concentrating on the domestic growth markets of wood chips for fuel and the handling of parts and materials for non-residential buildings and domestic timber. Accelerating efforts to expand business overseas, we are building out a business model with clarified functions of processing, installation and delivery, in addition to procurement and sales. Through these initiatives, we aim to achieve steady business growth and increase the distribution of sustainable timber resources.



Wood chips

Fiscal 2016

Volume of Domestic Timber Exported

70,000 m³

Volume of Domestic Unused Timber Traded

191,000 ton

Volume of Wood-chip Fuel Traded

812,000 m³

Addressing social environment changes while proactively moving into growth markets

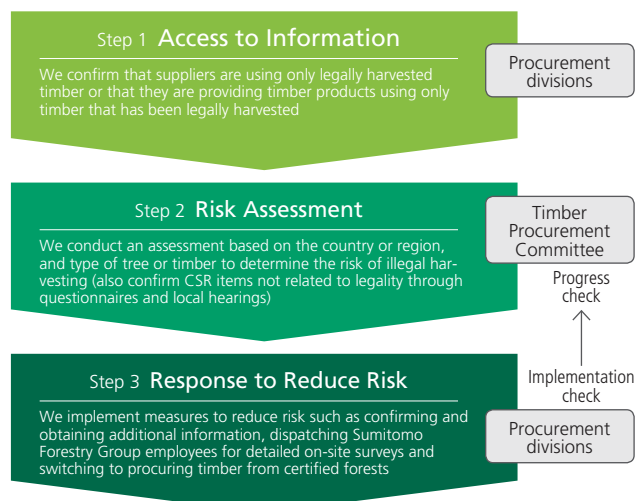
In the 1950s, when demand for timber was brisk during Japan's rapid economic growth stage, we were the first to begin importing timber from foreign countries and to establish a global procurement network. Now, in light of rising demand for construction materials in non-residential areas, the Company is focusing on new initiatives, such as developing and selling "Kigurumi CT," an original and cost-competitive laminated wood material that is fire-resistant and can be used in medium-sized to large-scale wooden buildings. Moreover, thanks to our domestic production bases, we are able to rapidly develop products in tune with changing market needs, and this can be utilized in product development. Sumitomo Forestry also helps increase overall efficiency in the industry by providing a timber delivery system that streamlines the distribution of home building materials and develops across diverse business domains.

Approximately 70% of Japan's landmass is covered in forests, making it one of the few countries in the world rich in forest resources. However, Japan's self-sufficiency rate for timber was only 33.3% as of 2015, reflecting the weak price competitiveness of domestically produced timber and the aging workforce in the forestry industry, among other reasons. The Japanese government aims to increase the self-sufficiency rate for timber to 50% by 2025, and has enacted laws to promote the construction of wooden buildings for public use. Moreover, some local governments have identified their local forestry industry as a viable means of revitalizing the region. Using domestic timber, which has become matured for harvesting, also helps to preserve the environment through the proper management of forests. Against this backdrop, we are focusing our energies on expanding sales of domestic timber, including exports to markets in Asia. From the standpoint of environmental conservation, renewable energy has gained attention, and the scale and number of biomass power generation plants has increased as a result. Amid growing demand for wood-chip fuel, we will focus on expanding the procurement and sale of energy-related raw materials.

Sumitomo Forestry will continue to steadily procure and supply timber and construction materials in accordance with diverse needs.



System of Timber Procurement Due Diligence



Overseas Distribution Business

Expanding business domains and creating synergies in global markets

In the Overseas Distribution Business, we have administered the business from Singapore since fiscal 2015. We mainly focus on sales of timber and building materials in Pacific Rim countries. At the same time, we create and implement efficient market strategies based on information gathered through close relationships with local suppliers and connections with our local affiliates in Asian countries.

We will continue to fortify our foundation for producing and selling building materials through capital tie-ups with local Indian producers. We aim to expand operations and continue creating a vertically integrated business model, from upstream to downstream operations, in overseas markets.

Sumitomo Forestry intends to expand the distribution of sustainable plantation timber by establishing a sustainable business cycle, from tree planting to logging, to distribute timber from its newly acquired timberland in New Zealand to Asian countries.

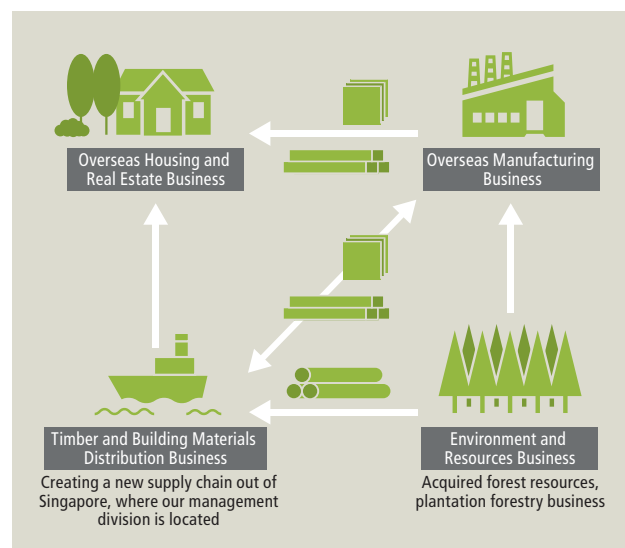
We aim to generate synergies in the global market by working to expand operations while building cooperative relationships with local businesses.



Unloading wood products



Timber storage



Housing Business

Fiscal 2016

Sales

466.3 billion yen

Recurring Income

32.3 billion yen

Percentage of Total Sales

40%

Basic Policy

Advancing diverse sources of earnings through Group synergies and provision of high-value-added products and services

Since it started the Custom-Built Detached Housing Business in 1975, the Sumitomo Forestry Group has provided excellent living environments by constructing long-lasting, high-quality homes. Leveraging its design capabilities accumulated in the Custom-Built Detached Housing Business, we have diversified into the Apartment Business, which proposes comfortable spaces with wood accents, in addition to the Renovation, Landscaping, Real Estate Brokerage, Rental Management, and MOCCA (Timber Solutions) businesses.

The Group takes advantage of synergies with these housing-related businesses to provide high-value-added products and services, thereby diversifying its sources of earnings in the Housing Business.



Fiscal 2016

ZEH Proliferation (Orders received basis)

32%

* ZEH (zero-energy houses) is defined as homes that reduce primary energy consumption by 100%, including solar power, and nearly ZEH by 75–100%. This figure includes nearly ZEH, excludes Hokkaido and Okinawa.

Percentage of Japanese Timber Used for New Custom-Built Detached Houses

Multi-Balance Construction Method

71%

Percentage of Japanese Timber Used for New Custom-Built Detached Houses

Big-Frame Construction Method

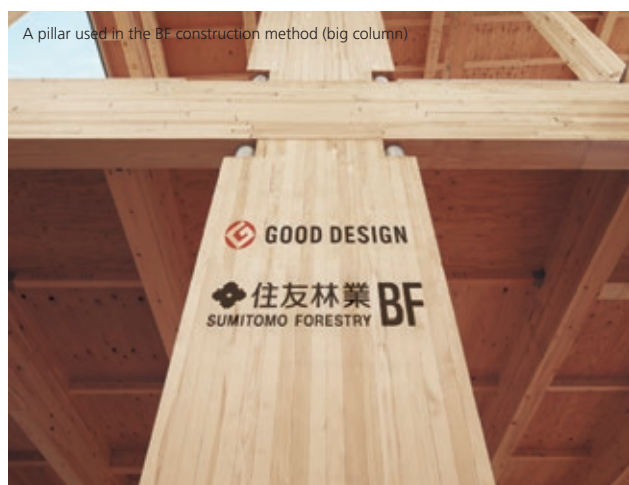
50%

Custom-Built Detached Housing Business

We aim to maximize customer satisfaction and increase orders with better proposals

In the Custom-Built Detached Housing Business, the Company aims to increase order receipts by leveraging its advanced technologies and excellent design capabilities. In April 2017, we unveiled The Forest BF, an evolution of our proprietary Big-Frame (BF) construction method. With The Forest BF, customers can select the height of their ceilings (2,250 mm, 2,400 mm, 2,600 mm or 2,800 mm heights), and thanks to new technologies, rooms are more open and spacious. In addition to the BF construction method, Sumitomo Forestry has the proprietary Multi-Balance construction method for maximizing the effective use of oddly shaped or narrow plots of land. With these in hand, we are able to fulfill the needs of our customers in both broad and narrow specifications.

We are continuing to provide high-value-added products and services, such as the Grand Estate Design Project that offers luxurious residences with superior design, and Green Smart homes and ZEH-specification homes that create energy-saving lifestyles with our technologies and the power of nature, such as the “Ryouonbou” designs that take advantage of wind, sunshine and the bounty of nature for natural heating and cooling. By doing so, we enhance earning capabilities and make energy conservation possible in our lives without sacrificing comfort.



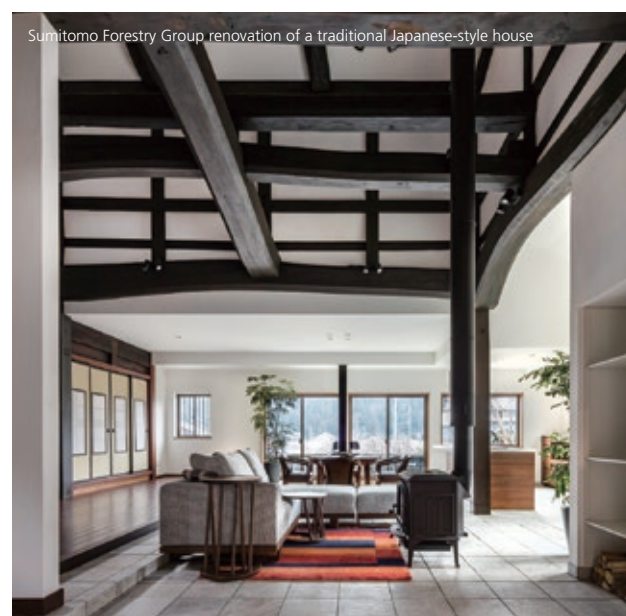
A pillar used in the BF construction method (big column)

Renovation Business

Differentiating ourselves from rivals with proprietary, advanced technologies

In the Renovation Business, we continue to expand operations while aiming to differentiate ourselves from the competition with the advanced technologies we have gained in the Custom-Built Detached Housing Business. In fiscal 2016, we were the first renovation company to adopt the Japan Trans-housing Institute's (JTI) “Moving Support and Home Compatibility System.” Under this system, JTI guarantees a minimum rental income for as long as 35 years for leasing a property. We will propose such monetization of homes to customers through the proactive use of this system. Our proprietary technology for enhancing building earthquake resistance and durability can be used in renovating traditional Japanese homes*, enabling future generations to continue living in their ancestral homes. We are proud to receive renovation orders for around 300 traditional homes each year. We aim to quickly achieve ¥100 billion in sales, working to expand orders by offering to increase the value of homes.

* 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.



Sumitomo Forestry Group renovation of a traditional Japanese-style house

Apartment Business

Enhancing our ability to offer selections to tenants, aggressively investing management resources

People's lifestyles have diversified with an increase in single-person households amid declining birthrates and an aging population. We leverage our technological capabilities to create original construction methods and detailed specifications from a woman's point of view to offer unique and compelling apartment residences built out of wood. We also provide support to rental property owners with reliable long-term management services, based on strong relationships with a Group rental management company. To fulfill strong demand for apartments and housing with combined rental housing in major cities against a backdrop of revisions to inheritance taxes, in addition to growing needs for asset utilization, we will continue to focus on selling products that meet fire protection standards. In areas with strong demand for rentals, we will heavily invest management resources in a bid to accelerate improvement in earnings.

An apartment exterior



MOCCA (Timber Solutions) Business

Using domestically produced timber, we aim to help revitalize Japan's forestry industry and create job opportunities

In the MOCCA (Timber Solutions) Business, we will promote the use of timber for non-residential buildings, such as commercial, education and elderly care facilities. Through this business, we aim to hand 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.

➔ Page 20 Feature Story: MOCCA (Timber Solutions) Business

Miyanomori Elementary School in Higashimatsushima City, Miyagi Prefecture



Design and supervision: Sakaki Sogo Plan and Coelacanth K&H Architects, Inc.

Licensed nursery school KIDDIE Suzukicho Kawasaki



Overseas Business

Fiscal 2016

Sales

247.9 billion yen

Recurring Income

19.3 billion yen

Percentage of Total Sales

21 %

Basic Policy

We aim to expand operations further as an engine of sustainable growth

Sumitomo Forestry has a long history of overseas expansion, dating back to importing timber for the use in the Timber and Building Materials Business in the 1950s. The business networks and know-how it has built up since then have become the foundation for advancing overseas operations. Today, the Overseas Business entails the manufacturing business for production and sales of high-quality wooden building materials, and the housing and real estate business for detached housing and real estate development. We operate these businesses together with around 7,000 people locally.

We aim to nurture the Overseas Business with the aim of expanding to become a stable contributor to earnings by tapping into demand in countries located around the Pacific Rim, incorporating demand centered on newly emerging countries and increasing sales of detached housing in the U.S. and Australia where housing demand remains strong.

Additionally, Sumitomo Forestry will engage in a diverse range of businesses while paying heed to the global environment, developing technologies to continue providing high-value-added products, and advancing the investment of management resources to expand business scale and its area of operations.

Fiscal 2016

Number of Homes Sold in the U.S.

4,686

 units

Number of Homes Sold in Australia

2,512

 units

Total Product Production Volume at Overseas Manufacturing Subsidiaries

1,140,000

 m³

(Total of board or construction material products manufactured within the Sumitomo Forestry Group)

Exterior view of a home built by the Henley Group



With its stable production structure, the Company is focusing on improving profitability by responding to market needs

The Overseas Manufacturing Business started in 1970 with a plywood manufacturing business at a subsidiary in Indonesia. Having expanded our business since then, we produce a wide variety of wood boards (medium density fiberboard and particle board) and wooden building materials for global distribution at our sites in Southeast Asia, Oceania and North America.

Over the past half century or so, we have developed high-quality, competitive products based on quality management systems that comply with various specifications and certifications, including those put out by Japanese Agricultural Standards (JAS), Japanese Industrial Standards (JIS) and the California Air Resources Board (CARB), while meeting the needs of markets. We have built positive relationships based on cooperation with local communities, creating jobs while developing business. In Indonesia for example, we utilize a social forestry framework, where we give local residents tree saplings to plant free of charge and then buy them back after the saplings have fully grown as trees. In addition, in New Zealand, we contribute to the local environment and communities by procuring sustainable plantation timber for our manufacturing business.

We are focusing our efforts on expanding sales through Group networks while working to differentiate ourselves from the competition in regions, such as emerging countries, likely to see growth in their markets for wooden building materials alongside economic growth. Moreover, we aim to maximize earnings at Group companies within the region, such as by supplying building materials for the Overseas Housing and Real Estate Business.



Plant of Nelson Pine Industries Ltd.



Canyon Creek Cabinet Company (product example)

Overseas
Housing and
Real Estate
Business

We are pursuing organic growth by fine-tuning our business structure while pushing into new businesses

The Overseas Housing and Real Estate Business, which started out in the detached housing business in Seattle, U.S.A., in 2003, has expanded on the back of growth at existing companies and through M&A. Today, revenue in the business has grown strongly based on a structure consisting of five companies in the U.S. and two companies in Australia. In the real estate development business, we develop condominium properties with other companies in Australia, Vietnam and Hong Kong. While striving to minimize risks, such as those arising from changes in the business environment, mainly through geographic dispersion, we will continue to refine our housing-related business model overseas.

The Sumitomo Forestry Group has put in place a sales structure for 5,000 homes in the U.S. and 3,000 homes in Australia with the aim of becoming a top-class home builder in both countries. In fiscal 2017, Sumitomo Forestry is prioritizing organic growth initiatives and continues to update the business structures of existing companies with an eye on attainment of its target for 8,000 home sales annually. Moreover, we are putting into place a framework that will generate synergies by training personnel and having common parts, materials and specifications. Apart from that, we will reinforce organizational structures and

corporate governance in the U.S. by strategically stationing directors there.

In addition, we are diversifying into new peripheral business fields overseas, such as the landscaping business for residences, and the real estate leasing business. We are “diversifying revenue sources in the global market,” one of the basic policies of our medium-term management plan. We are strongly advancing the development of these new businesses while coordinating with existing businesses, moving with speed so they will contribute to earnings as early as possible.



Other Businesses

Fiscal 2016

Sales

23.0 billion yen

Recurring Income

2.2 billion yen

Percentage of Total Sales

2 %

Fiscal 2016

Total Amount of Carbon Stock by
Company-Owned Forests in Japan**12.54** million t-CO₂Total Amount of Carbon Stock by
Plantation Forests Overseas**7.83** million t-CO₂

* Area comprised of plantation forests among all managed and owned forest areas

Percentage of Company-Owned Forests in
Japan*¹ that Have Acquired Certification
by the Sustainable Green Ecosystem
Council (SGEC)*²**100**%

*1. Forests owned by Sumitomo Forestry exclude the land held under lease by Kawanokita Development Co., Ltd., a Group company, which manages a golf course.

*2. Japan's own forestry certification system through which forest management is verified as sustainable by third parties. Certification is based on seven criteria that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.

Environment
and Resources
Business

Engaging in the domestic forestry and related business, using our expertise gained through sustainable forestry, the overseas forestation business and the wood biomass power generation business

Lifestyle
Services
Business

Offering a broad range of lifestyle-related services that support people's livelihoods



Domestic Forestry Business

Sumitomo Forestry offers forestry management consulting services backed by its expertise in sustainable forestry accumulated through the management of Company-owned forests, which span approximately 46,000 hectares in Japan, or 1/900th of the land area of the country. In 2016, the Company was commissioned to develop the Forest and Forestry Master Plan by Itoshima City in Fukuoka Prefecture with the objective of properly maintaining forests and effectively using the timber from these forests. We created and published Standard Specifications for Forest Cloud Systems to standardize data and systems related to forestry information, with the aim of reviving the forestry industry through the sophisticated use of forestry data.

Amid a shortage of seedlings for reforestation, despite rising interest in using domestically produced timber, we are growing tree saplings in four locations in Japan and plan to expand the business upon establishing a reliable supply structure.

Through these initiatives, we aim to attain sustainable forestry management and help revitalize regions by reviving the domestic forestry industry. At the same time, we will work to improve corporate value.

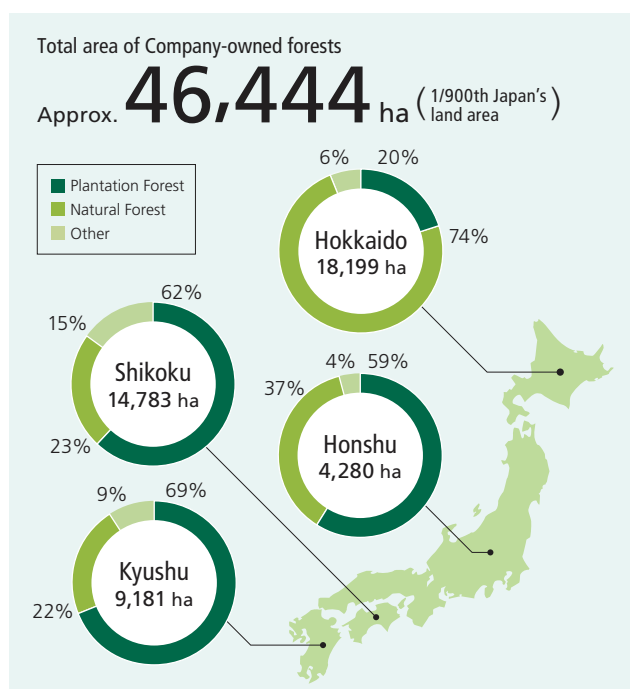
* In this report, the Group's domestic forestry business, which is included in Adjustments in the Financial Section, is described within the Other Businesses section.

Overseas Forestation Business

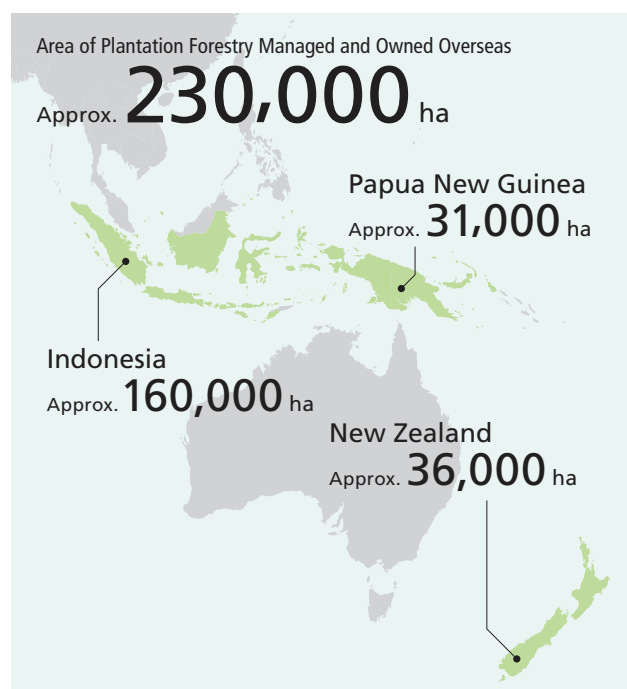
In addition to forestry management in Indonesia and Papua New Guinea, Sumitomo Forestry acquired 31,000 hectares of timberland in New Zealand in 2016. We manage and own 230,000 hectares of forest overseas, promoting an environmentally friendly sustainable forestation business.

In the future, demand for timber is forecasted to increase as the world population expands and standards of living improve in emerging countries. Our aim is to produce a reliable supply of sustainable timber in regions where we have competitive advantages while showing consideration for protection of ecosystems and preservation of biodiversity.

➔ Page 24 Feature Story: Overseas Forestation Business



As of April 1, 2017



As of July 1, 2017

Wood Biomass Power Generation Business

In the environment and energy field, Sumitomo Forestry generated electricity using wood biomass as fuel, such as from building construction waste and unused wood materials*. In December 2016, operations commenced at the Mombetsu Biomass Power Plant, which is one of the largest wood biomass power generation plants in Japan with a scale of 50 MW, using unused wood materials in Japan as its primary fuel source.

Sumitomo Forestry intends to further expand the renewable energy business centered on biomass power generation in Japan. The Company also aims to help revitalize regions, such as through job creation, while improving the value of wood as a resource.

* Unused timber from forests
Timber from forest thinnings and timber left unused because of undesirable bending and small diameters after logging can degrade forest environments if left alone, making it harder to manage forests and plant new trees.

➡ Page 22 Feature Story: Wood Biomass Power Generation Business



Turbine and power generator



Fuel wood chip production plant

Lifestyle Services Business

In the Lifestyle Services Business, the Sumitomo Forestry Group is targeting flexible changes to the social structure and people's values, developing businesses that support people's daily lives from various perspectives.

In the private-pay elderly care facilities business, we have introduced ICT (Information and Communication Technology) systems that monitor the status of residents, as well as room spaces that improve the quality of sleep and gardens that should help improve cognitive functions, which are the fruits of research conducted at the Tsukuba Research Institute. In the adult day care business, Sumitomo Forestry provides services that take advantage of the unique aspects of its businesses, such as the creation of facility environments with beautiful wood accents and the use of garden therapy as rehabilitation.

In addition, we offer a variety of services that include casualty and life insurance agency recruitment operations and leasing and office agency operations, as well as support safe and enriched lifestyles through the manufacture and sale of farming and gardening supplies. Looking ahead, we will continue to offer a wide variety of services to our diverse customer base, targeting the child-raising generation and the active senior citizen generation.



Gran Forest Gakugei Daigaku




Initiatives to Address CSR Material Issues

Material Issue 1

Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration

Fundamental Policy

As the world's forests continue to decrease in size as a consequence of illegal logging, excessive slash-and-burn farming and other practices, various countries are proceeding to introduce laws and strengthen regulations to eliminate illegally logged timber from the market. Meanwhile, in Japan, maintenance of forests, and of plantation forests in particular, has halted in part because of an aging and declining forestry workforce, and there are growing concerns about some forests becoming devastated. Amid this situation, as the Sumitomo Forestry Group is engaged in business centered on wood, it is promoting sustainable forest management and sustainable procurement of wood both in Japan and overseas. Furthermore, since its fields of business are directly linked to forests that nurture biodiversity, the Group has positioned conserving biodiversity as one of its key CSR themes.








| Current awareness of issues and basic strategies | | Evaluation metrics | | Fiscal 2016 results | Relevant SDGs |
|--|---|---|-----------------------------------|------------------------|---|
| Environmentally responsible society | Increase volume of sustainable timber handled, and utilize sustainable forest resources by verifying legal compliance | Percentage of imported timber from certified forests among all imported timber sold | | 10.9% |    |
| | | Volume of domestic timber exported | | 70,000 m ³ | |
| | | Volume of plantation timber, timber from certified forests, and Japanese timber handled at overseas distribution bases | | 812,000 m ³ | |
| | | Volume of wood chips used for fuel | | 812,000 m ³ | |
| | | Volume of timber from certified forests (SGEC timber) handled at domestic distribution bases | | 68,000 m ³ | |
| | | Volume of unused wood in domestic timber | | 191,000 tons | |
| | | Percentage of Japanese timber used for new custom-built detached housing in the housing business | Multi-balance construction method | 71% | |
| | | | Big-frame construction method | 50% | |
| | | Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance (Timber and wood product department) | | 100% | |
| | Establish forestry management that enables conservation of biodiversity, and evaluate value as natural capital | Percentage of SGEC-certified managed forests in newly acquired forests managed by the Group | | 100% | |
| | | Number of native species planted at new detached housing sites | | 30,614 trees | |

Promote the Reduction of the Environmental Impact of Our Business Activities

Fundamental Policy

As the impact of climate change becomes more apparent globally, companies are being asked to reduce their emissions of greenhouse gases as a measure to counter global warming.

Being engaged in such business as the housing business and the manufacturing of wooden panels and building materials, the Sumitomo Forestry Group takes into consideration its impact on the environment, and is committed to reducing the volume of greenhouse gases emitted from its business activities. Furthermore, to reduce its environmental impact and to use resources effectively, the Group promotes the curbing, reuse and recycling of industrial waste.




| Current awareness of issues and basic strategies | | Evaluation metrics | | Fiscal 2016 results | Relevant SDGs |
|--|---|--|---|--|--|
| Low-carbon society | Reduce CO ₂ emissions by the Group | Office segment (consolidated companies inside and outside Japan) | Change in CO ₂ emissions compared to fiscal 2013 | 7.8% reduction Total emissions 32,660 t-CO ₂ |   |
| | | Sumitomo Forestry (offices in Japan) | | 13.9% reduction | |
| | | Affiliated companies in Japan (offices) | | 0.9% reduction | |
| | | Affiliated companies overseas (offices) | | 0.7% reduction | |
| | | Kutai Timber Indonesia (Indonesia) | Change in CO ₂ emissions per production volume compared to the previous year | 3.1% increase |   |
| | | Vina Eco Board (Vietnam) | | 5.4% reduction | |
| | | AST Indonesia (Indonesia) | | 16.0% increase | |
| | | Nelson Pine Industries (New Zealand) | | 0.7% reduction | |
| | | Rimba Partikel Indonesia (Indonesia) | | 15.8% increase | |
| | Reduce CO ₂ emissions outside the Group (products, service recipients) | Solar power generation systems handled by distribution bases in Japan | | 3,717 KW (791 sets) |  |
| | | Percentage of Green Smart houses in new custom-built detached housing (Number of Green Smart houses at order placement / total number of houses ordered) | | 61.6% | |
| | | Percentage of Green Smart · ZEH-type houses in new custom-built detached housing (Number of Green Smart · ZEH-type houses at time construction started / total number of construction starts) | | 21.3% | |
| Recycling-oriented society | Achieve zero emissions | Recycling rate at new housing construction sites | | 92.5% |  |
| | | Recycling rate at remodeling sites | | 76.2% | |
| | Reduce volume of industrial waste generated | Reduction in industrial waste generated at new construction sites compared to fiscal 2013 | | 8.8% reduction |  |
| | | Change in industrial waste per unit of sales* compared to fiscal 2014 *Per unit of in-house sales at domestic manufacturing plants | | 2.6% reduction | |

Material
Issue 3

Promote Development of Workplaces Where Diverse Personnel Can Work with Vigor and Enthusiasm, Demonstrating Their Abilities and Individuality

Fundamental Policy

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion, disability, sexual orientation or gender identity, and is advancing maintenance of a safe and healthy workplace in which highly motivated employees can display their abilities. We are conducting initiatives aimed at providing opportunities for female employees in particular and the Group released the “Sumitomo Forestry Group’s Declaration on Empowering Women.” The declaration was issued to the entire Group under the name of the President, and has been the basis for subsequent efforts.

| Current awareness of issues and basic strategies | Evaluation metrics | | Fiscal 2016 results | Relevant SDGs |
|--|--|-------------------------------------|---------------------|--|
| Promote fair employment and treatment | Ratio of female employees in management positions* ¹ | Sumitomo Forestry | 3.2% |    |
| | | Domestic subsidiaries | 5% | |
| | Ratio of female employees* ¹ | Sumitomo Forestry | 20.1% | |
| | | Domestic subsidiaries | 25.4% | |
| | Ratio of employees with disabilities | Sumitomo Forestry | 2.12% | |
| | | Domestic subsidiaries* ² | 1.45% | |
| Promote work-life balance | Number of paid leave days used (Target figures for each domestic subsidiary) | Sumitomo Forestry | 6.9 days | — |
| | | Domestic subsidiaries | 40% | |
| | Hours worked overtime (Reduction in average overtime hours compared to fiscal 2013) | Sumitomo Forestry | 7.5% reduction | |
| Strengthen occupational health and safety | Number of occupational injuries in Company-owned forests* ³ | Sumitomo Forestry | 3 | — |
| | Number of occupational injuries at new construction sites* ⁴ | Sumitomo Forestry | 12 | |
| | Number of occupational injuries in other situations* ⁴ | Domestic subsidiaries | 8 | |

*1 Figures as of April 1, 2017

*2 Figures as of June 2016

*3 Number of occupational injuries among sub-contractors at workplaces in Company-owned forests

*4 Number of cases eligible for work compensation benefits under the Industrial Accident Compensation Insurance Act

Material
Issue 4

Strengthen and Promote Risk Management and Compliance Mechanisms

Fundamental
Policy

The Sumitomo Forestry Group is working to reinforce the mechanism for managing business risks by constantly managing prioritized risks through the CSR & Risk Management Committee.




| Current awareness of issues and basic strategies | Evaluation metrics | Fiscal 2016 results | Relevant SDGs |
|--|--------------------|---|---------------|
| Strengthening the Risk Management System | — | Addressed targeted risk items and shared case studies where risks materialized at monthly meetings of the Executive Committee | — |

Material
Issue 5

Promoting the Development and Sale of Products and Services that Are Safe, Reliable and Environmentally Conscious.

Fundamental
Policy

Sumitomo Forestry believes that popularizing durable, high-quality houses as social assets plays an important role in creating a prosperous society. In addition, Sumitomo Forestry actively promotes the use of the Excellent Long-Term Housing Certification and the Japanese Housing Performance Indication System for customers' peace of mind and safety and to enhance property value.

| Current awareness of issues and basic strategies | Evaluation metrics | Fiscal 2016 results | Relevant SDGs |
|--|---|---------------------|---|
| Improve safety and quality | Ratio of design performance evaluations implemented for new custom-built detached houses | 98.8% |  |
| | Ratio of construction performance evaluations implemented for new custom-built detached houses | 97.8% |  |
| | Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses | 93.3% |  |
| Improve communication with customers | Pass rate for after-sales maintenance advisors and housing inspectors (all persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance) | 100.0% | — |
| | Ratio of design performance evaluations implemented for custom-built detached housing | 77.0% | |

Stakeholder Relations

The Sumitomo Forestry Group takes advantage of various opportunities to communicate with stakeholders from a clear understanding of its role and purpose as a member of society. Through its business activities, the Sumitomo Forestry Group strives to meet the expectations and demands of stakeholders to build positive relationships.

1. Customers

Amid diversifying customer needs, values and lifestyles, the Sumitomo Forestry Group coordinates its efforts to ensure safety and quality in the provision of better products and services in line with one of its Action Guidelines, "Putting Customers First." Through incessant improvement and an active approach to social and environmental trends, we strive to create new business opportunities and further increase customer satisfaction.

| Main responsibilities | Communication methods |
|---|--|
| Provide safe and high-quality products and services Disclose information in a timely and proper fashion, report responsibility Understand stakeholder requests and needs through communication and improve satisfaction | Sumitomo Forestry Call Centers Customer satisfaction surveys Website, mass media, etc. Exhibitions and other events |

Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses in fiscal 2016

93.3%

Pass rate for after-sales maintenance advisors and housing inspectors*

100.0%

Number of inquiries handled by call centers

140,046

Percentage of customers who responded "I would recommend Sumitomo Forestry homes"

86.8%

* All persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance

2. Business Partners

As stipulated by the Sumitomo Forestry Group Timber Procurement Policy, we aggressively work toward the sustainable procurement of timber globally. While working and communicating with business partners and suppliers, we make every effort to engage in fair and open procurement activities. We aim to reinforce our business foundation by building and maintaining healthy relationships based on mutual development.

| Main responsibilities | Communication methods |
|---|--|
| Build fair and open business relationships Improve occupational health and safety Strict compliance with laws and regulations | Purchasing and procurement activities Hold safety conferences, safety patrols, and building contractor meetings Hold research conferences and information exchange events Evaluate suppliers (surveys and on-site visits) |

Volume of plantation timber, timber from certified forests and Japanese timber handled at overseas distribution bases in fiscal 2016

812,000 m³

Volume of wood chips used for fuel in fiscal 2016

812,000 m³

Volume of unused wood in domestic timber in fiscal 2016

191,000 tons

Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance in fiscal 2016

100.0%

3. Shareholders and Investors

With the aim of maintaining and strengthening the trust of financial markets, the Sumitomo Forestry Group makes every effort to fulfill its reporting responsibility to shareholders and investors so its share price reflects an accurate assessment of its corporate value. Through the timely and transparent disclosure of a wide range of information, we aim for further understanding of our management policies, strategies and business plans. At the same time, we feed back the opinions and requests of investors and other stakeholders to management, facilitating the creation of measures to improve corporate value and sustain growth.

| Main responsibilities | Communication methods |
|---|--|
| Timely and appropriate information disclosure Information transparency and reporting responsibility Appropriate shareholder returns | General Meeting of Shareholders, results briefings, investor briefings, and analyst briefings Disseminate information through the website, shareholder communications, briefing materials, and other relevant materials SRI and other evaluations and responses to surveys by research organizations |
| Return on equity (ROE) | Individual meetings with institutional investors and analysts in Japan and overseas |
| 13.3% | 169 meetings |
| Total number of shares issued (as of March 31, 2017) | Dividends per share in fiscal 2016 |
| 177,410,239 shares | ¥35 |

4. Regional Communities

The Sumitomo Forestry Group proactively engages in activities that give back to local communities and contribute to society in the fields of environmental preservation, welfare and healthcare. We aim to advance business development in each country and region by providing more insight into the Group through regional community engagement, cooperation and information disclosure. At the same time, we will continue to create both economic and social value for regional communities through business activities.

| Main responsibilities | Communication methods |
|--|--|
| Help solve social problems Reduce environmental impact in business Preserve the natural environment and biodiversity | Employee participation in volunteer activities Help form communities through social contributions Contribute to the environment and society through collaboration with NPOs/NGOs |
| Cost of social contribution activities in fiscal 2016 | Amount of donations related to social contributions |
| ¥119.3 million | ¥263.0 million |
| Total number of visitors to Manabi no Mori (1998 to end of fiscal 2016) | Number of children who participated in Manabi no Mori environmental education programs (fiscal 2016) |
| 1,468 | 794 |

5. Employees and Their Families

The Sumitomo Forestry Group has put in place measures that enhance respect for diversity and human rights, promote the creation of open work environments free of discrimination, and improve work-life balance with the aim of providing workplaces where employees are motivated and lead fulfilling lifestyles. We intend to put into practice one of our Action Guidelines, “Respect for Humanity—We work to create an open and inclusive corporate culture that values diversity” and foster a group of employees who are always willing to take on new challenges.

| Main responsibilities | Communication methods |
|--|---|
| Provide and maintain a work environment where human rights are respected and employees can work under safe and healthy conditions without discrimination Fair and open personnel evaluations Maintain an education system that improves the skills of employees Promote measures and systems that enhance work-life balance | Conduct employee awareness surveys Compliance Counters Mental health consultation office Open discussions between the president and employees Family Open Day Informal Management Committee comprised of both labor and management members Publication of internal newsletter and operation of the intranet |
| Hours of overtime work in fiscal 2016 (compared with fiscal 2013) | Number of hours each employee took part in in-house training on average in fiscal 2016 |
| 7.5% reduction | 9.4 hours |
| Annual training cost per employee | Percentage of employees who have joined the labor union (non-consolidated basis) |
| ¥100,000 | 100.0% |

■ Diversity (Fair Employment and Benefits that Respect Diversity)

Basic Policy on the Employment and Treatment of Employees

The Sumitomo Forestry Group respects equal opportunity and diversity in its employee hiring and compensation practices, without regard to gender, age, nationality, race, religion, physical ability, sexual orientation or gender identity, as defined in its Code of Conduct.

In Japan, one of the major issues confronting management is the securing of sufficient personnel due to declining birthrates and an aging population. At Sumitomo Forestry, in our recruitment activities, we do not differentiate selection processes according to academic background or gender. We concentrate our efforts on hiring talented personnel who will lead future generations by augmenting systems that support diverse workstyles and empower women in the workplace.

In addition, the Company encourages the employment of people with disabilities, prioritizing the matching of their individual abilities to the type of work and workplace.

Going forward, based on one of the Group's Action Guidelines, "Respect for Humanity," which calls for creating an open and inclusive corporate culture that values diversity, the Sumitomo Forestry Group aims to continue fostering a group of employees who are always willing to take on new challenges, as the Company promotes diversity and inclusion, maintains an up to date personnel system, optimally and efficiently allocates personnel and develops and nurtures human resources.

Promotion Structure

The Workstyle Diversification Department was created as an independent organization within the Personnel Department to promote diversity and support the various workstyles of employees including women, post-retirement reemployed people, and people with disabilities. In support of female employees, the Sumitomo Forestry Group's Declaration on Empowering Women was created in December 2013 and signed by the president. The Company has endeavored to improve its childcare system and training systems while pushing forward with initiatives to empower women. We have set a numerical target for appointment of women to managerial posts. We are now working toward our publicly announced goal of increasing the proportion of female managers to more than 5% by 2020 (3.2% as of April 1, 2017).

In March 2017, Sumitomo Forestry was selected as a Semi-Nadeshiko Brand by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) as a company that excels in encouraging the empowerment of women in the workplace.

Employment and Promotion of Women (Non-Consolidated)

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|-------|-------|-------|-------|-------|
| Ratio of female employees* | 17.7% | 18.4% | 19.2% | 19.9% | 20.1% |
| Ratio of women in management positions* | 1.8% | 2.2% | 2.6% | 2.8% | 3.2% |
| Ratio of newly hired female university graduates | 23.6% | 28.7% | 26.8% | 22.8% | 18.0% |

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

Employment and Promotion of Women (Domestic Group Companies)

| | 2016 | 2017 |
|--|-------|-------|
| Ratio of female employees* | 26.2% | 25.4% |
| Ratio of women in management positions* | 3.8% | 5.0% |
| Ratio of newly hired female university graduates | 47.0% | 36.7% |

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

Employment of Persons with Disabilities (Non-Consolidated)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------------|-------|-------|-------|-------|-------|
| Ratio of employees with disabilities | 1.95% | 2.18% | 2.24% | 2.12% | 2.12% |

■ Work-Life Balance

Basic Policy on Employee Work-Styles

Sumitomo Forestry recognizes employees' diverse workstyles and has strived to create a workplace where they can be motivated in their jobs, and still enjoy a fulfilling private life. The Workstyle Diversification Department is in charge of support desk functions relating to workstyles and careers, including assistance for female employees and post-retirement reemployment, childcare and nursing, career development, mental health and other related services. The Company supports diverse workstyles by developing a counseling system that's easier for employees to access.

From fiscal 2017 onward, Sumitomo Forestry has introduced an hourly productivity assessment system with the objective of reducing long work hours and increasing productivity, while launching a flexible work hours system and a work interval system.

The Company aims to increase employee satisfaction and productivity by encouraging a work-life balance, raising awareness of hourly costs and prevention of fatigue from long working hours that can be detrimental to employee health.

The 6th Next Generation Law Action Plan (Fiscal 2015 to 2018)

Sumitomo Forestry formulates and implements action plans for supporting employees who are raising families, in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law). From fiscal 2015, the Company has commenced initiatives to achieve the three goals outlined below over the next three years.

- 1 Host seminars themed on workstyle reforms in order to foster a work environment that actively involves female employees who are raising children. (Ikuboss Seminars)
- 2 Hold "Family Open Days" to create a pleasant work environment for all employees to execute their talent.
- 3 Establish a system in which male employees and their seniors can discuss using childcare support programs as a means of promoting paternal involvement in childcare. Also, disclose the participation status of childcare-related programs on the Company's intranet.

Initiatives to Reduce Long Working Hours

At Sumitomo Forestry, average department overtime hours and individual overtime hours are reported to the head of each department to increase awareness on the need to reduce long working hours.

Additionally, Workstyle Enhancement Committees have been set up at branches of the Housing Division to implement initiatives to address long working hours at each of the branches. For work system and operational flow reforms that are difficult to tackle at the branch level, the Long Working Hours Mitigation Committee was set up within the division to lead the campaign to reduce long working hours by making systems improvement proposals.

Encouraging Employees to Take Paid Leave

At Sumitomo Forestry, each business site draws up an Annual Vacation Schedule every January, and periodically reports to the Personnel Department on how much paid leave has actually been taken. Based on this, the results for each site are published on the intranet to encourage employees to take their paid leave.

The percentage of paid leave taken was 31.6%, 35.2%, 32.8% and 35.9% in fiscal 2013, 2014, 2015 and 2016, respectively. The Company has listed "take at least 10 days of paid leave" in its CSR budget, and will continue to promote this initiative during fiscal 2017.

Human Resource Development

Basic Policy on Human Resource Development

Based on the concepts of autonomy and support in human resource development, Sumitomo Forestry endeavors to train personnel who contribute to the realization of its corporate philosophy by nurturing a corporate culture that is open and inclusive, developing employees who are highly motivated and proud to work at Sumitomo Forestry.

Moreover, the Company has been expanding the scope of its hiring since fiscal 2014 to address a shortage of young employees. We believe it is our mission to pass along to the next generation the carpentry techniques that can be applied in a majority of situations, such as wooden houses, renovation work, and large-scale wooden structures. We are concentrating on the development of human resources with these valuable skills.

Improving the Human Resource Development Structure

The Sumitomo Forestry Business Institute, which was created in fiscal 2011, has been a center for skills development with an emphasis on self-initiative, while transitioning from a system based on training for each level for all positions to one focused more on self-development and selective training, based on the concept of "Supporting Motivated People." We also provide an e-learning curriculum that domestic Group employees can use to learn on their own.

Hours of Training Courses Taken and Training-Related Costs (Non-Consolidated)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|
| Hours of training courses taken per employee | 6.9 | 7.5 | 6.8 | 9.3 | 9.4 |
| Spending on training per employee (¥ thousand) | 103 | 91 | 91 | 91 | 100 |

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques is an educational institution certified by the governor of Chiba Prefecture, and was founded by the Company in 1988 as an in-house training center. Through a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire to work in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structures, drawing, methods of construction, materials and supervision, as well as practical subjects, including tool operation and maintenance, the traditional technique of marking timber with sumi ink and a carpenter's square, as well as processing, safety work, model-based practical training, demonstration-based practical training and computing. By the end of their training, the students aim to obtain Grade 2 Carpenter Skills Certification.

On completion of their training, graduates are assigned to places all around Japan, and after a few years, they are given an opportunity to return to the school for 7–10 days of refresher training.

In fiscal 2016, the school welcomed 63 new enrollments, including carpenters employed at partner companies, and 61 students graduated. In fiscal 2017, the school had another 67 new enrollments.



Learning building methods



■ Environmental Management Structure

Environmental Management of the Sumitomo Forestry Group

The Sumitomo Forestry Group lists “Symbiosis with the Environment” as one of the Action Guidelines of its corporate philosophy and states, “We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society.” In fiscal 2014, the CSR Mid-Term Plan (fiscal 2015–2020) was created with environmental targets, and these numerical targets for each fiscal year are included in the “CSR budget.” Our environmental activities are steadily enhanced through implementation of the PDCA (plan-do-check-act) cycle at each organization.

Based on the Sumitomo Forestry Group Environmental Policy, all business processes, including product development, design, production, materials procurement and distribution, and waste management, are managed in a way to facilitate the creation of a sustainable society.

Sumitomo Forestry Group Environmental Policy

Since its founding, the Sumitomo Forestry Group learned to value the wonder of trees and bounty of nature through the actual experience of growing forests. As a company with a love for nature it seeks harmony between the environment and the economy and engages in business activities to contribute to a sustainable society.

1. Develop business operations centered on wood and forests

We will cultivate forests and their ability to preserve and enhance the rich ecosystem to protect biodiversity, actively utilize timber resources and create new corporate value.

2. Develop and offer environmentally conscious products and services

We will develop and sell products and services that are environmentally conscious throughout the entire product life cycle.

3. Minimize and improve environmental impact

To minimize and improve environmental impact, we will prevent environmental pollution and climate change, employ environmentally conscious procurement practices, and promote the effective utilization of natural resources.

4. Ensure strict legal compliance

We will adhere to all environmental laws, rules and regulations, global standards, voluntary standards and accords with stakeholders.

5. Make continual improvements to our environmental management system

We will accurately assess environment-related risks associated with our business activities and, with a medium-to-long-term outlook, set and work to fulfill yearly environmental goals. In addition, we will regularly evaluate our environmental management system and make continual improvements.

6. Promote environmental education

We will provide environmental education for all parties involved in the Sumitomo Forestry Group’s business operations and encourage voluntary environmental efforts.

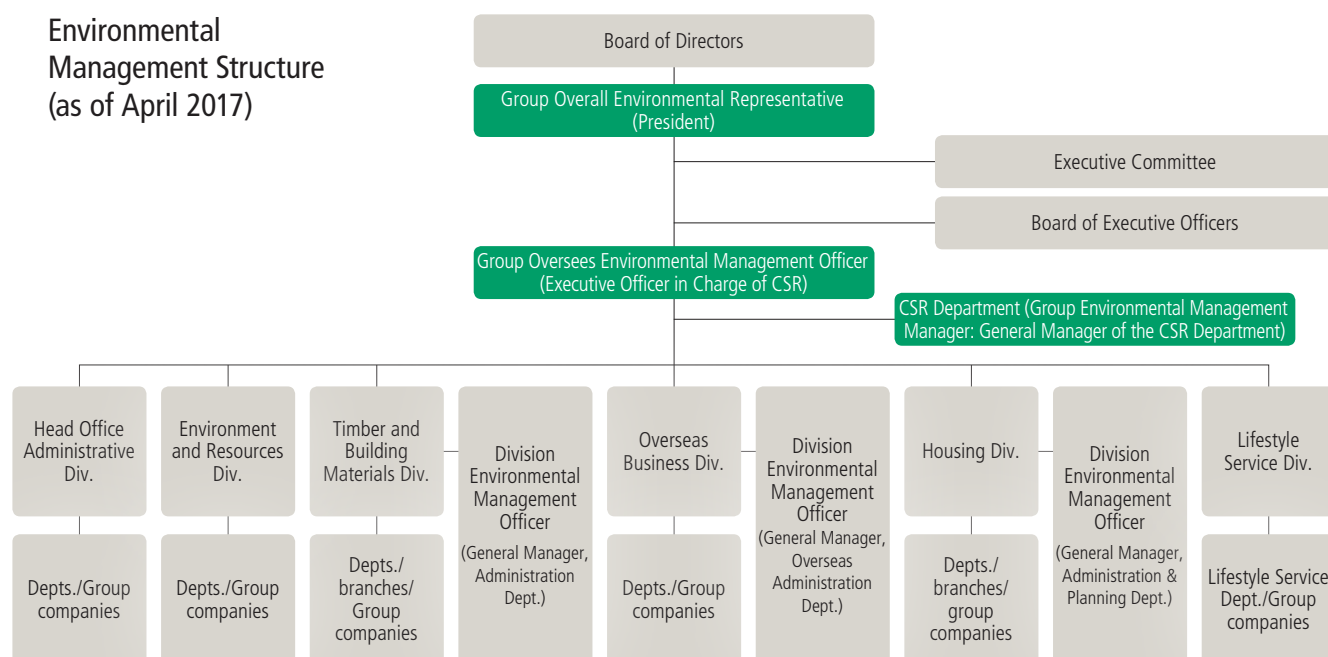
7. Pursue active communication

We will actively disclose information about our environmental policies and initiatives and pursue activities that convey the wonders of trees and forests and the importance of nature.

Environmental Management Structure

The Sumitomo Forestry Group has put in place an environmental management structure with top management in charge of environmental management. Beneath the Group Overall Environmental Representative, there are the Executive Officer in Charge of CSR and the General Manager of the CSR Department. Regular checks on the progress of environmental activities advanced by divisions and departments within the Group and related issues are conducted against the “CSR budget,” which sets forth numerical targets for each fiscal year, to raise the effectiveness of those activities.

Environmental Management Structure (as of April 2017)



ISO 14001 Certification

Sumitomo Forestry acquired ISO 14001 certification for its housing operations in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations with all departments and divisions in the Company achieving integrated ISO 14001 certification in fiscal 2002. The scope of certified Group companies has been extended over critical businesses, and as of April 2017, four Group companies are integrated in Japan, and six Group companies are certified overseas. As a result, 87.3% of consolidated organizations (sales basis) have received certification.

Domestic companies within the registration scope of ISO 14001 certifications are periodically audited by external certification bodies. In fiscal 2016, 55 departments and divisions at five companies underwent transition assessments and update assessments for the new standard ISO 14001:2015 (JISQ 14001:2015), and were approved to register for transition to the new standard. Overseas companies are also preparing for this transition to the new standard.

In addition to reviews conducted by external certification bodies, internal environmental audits are periodically carried out by employees (i.e., internal environmental auditors) who have passed an exam upon completion of an in-house training course to become internal environmental auditors. In fiscal 2016, courses were held 12 times, and the Company certified 316 internal environmental auditors trained on the new standards.

Sumitomo Forestry Group ISO 14001 Certification (As of April 2017)

| Company Name | | Date of Certification |
|---------------------------------------|---|------------------------------|
| Expanded Domestic Group Certification | Sumitomo Forestry (excluding overseas) | August 2002 ^{*1} |
| | Sumitomo Forestry Landscaping Co., Ltd. | November 2002 ^{*2} |
| | Sumitomo Forestry Crest Co., Ltd. | September 2003 ^{*2} |
| | Sumitomo Forestry Home Tech Co., Ltd. | March 2013 ^{*2} |
| | Japan Bio Energy Co., Ltd. | August 2014 ^{*2} |
| PT. Kutai Timber Indonesia (KTI) | | July 2001 |
| Nelson Pine Industries Ltd. (NPIL) | | July 2003 |
| PT. Rimba Partikel Indonesia (RPI) | | October 2005 |
| PT. AST Indonesia (ASTI) | | January 2007 |
| Vina Eco Board Co., Ltd. (VECO) | | March 2014 |
| Pan Asia Packing (PAP) | | April 2017 |

^{*1} Certification was acquired by departments and divisions from 1997 before integrated certification was acquired for the entire Company

^{*2} Acquired by inclusion in Sumitomo Forestry's scope of registration

Financial Section

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Eleven-Year Consolidated Financial Summary

| | Millions of yen | | | |
|--|-----------------|------------|----------|----------|
| (Years ended March 31) | 2017 | 2016 | 2015 | 2014 |
| Operating Results: | | | | |
| Net sales | ¥1,113,364 | ¥1,040,524 | ¥997,256 | ¥972,968 |
| Gross profit | 204,138 | 183,134 | 169,492 | 160,162 |
| Selling, general and administrative expenses | 150,149 | 153,041 | 135,498 | 126,747 |
| Operating income | 53,989 | 30,093 | 33,994 | 33,415 |
| Recurring income | 57,841 | 30,507 | 36,424 | 33,567 |
| Profit attributable to owners of parent / Net income | 34,532 | 9,727 | 18,572 | 22,531 |
| Financial Position: | | | | |
| Total assets | ¥793,617 | ¥710,318 | ¥665,538 | ¥645,197 |
| Working capital* ¹ | 189,783 | 178,215 | 158,110 | 120,725 |
| Interest-bearing debt | 163,817 | 119,069 | 103,369 | 92,975 |
| Total net assets | 295,344 | 265,257 | 260,782 | 226,078 |
| Cash Flows: | | | | |
| Cash flows from operating activities | ¥ 40,337 | ¥ 45,705 | ¥ 14,709 | ¥ 54,057 |
| Cash flows from investment activities | (62,350) | (9,972) | (23,575) | (10,476) |
| Cash flows from financing activities | 14,267 | 1,813 | (17,286) | 8,511 |
| Cash and cash equivalents at the end of the year | 132,707 | 141,265 | 103,296 | 128,343 |
| Capital Investment: | | | | |
| Tangible fixed assets* ² | ¥ 50,940 | ¥ 18,042 | ¥ 12,617 | ¥ 14,735 |
| Intangible fixed assets | 2,839 | 2,006 | 2,488 | 2,417 |
| Others | 349 | 400 | 282 | 252 |
| Total | 54,128 | 20,448 | 15,388 | 17,404 |
| Depreciation and amortization | 12,887 | 11,753 | 11,453 | 9,810 |
| Per Share Data: | | | | |
| Profit attributable to owners of parent / Net income | ¥ 194.95 | ¥ 54.92 | ¥ 104.85 | ¥ 127.20 |
| Net assets | 1,552.04 | 1,374.47 | 1,387.39 | 1,234.53 |
| Cash dividends | 35.0 | 24.0 | 21.5 | 19.0 |
| Financial Ratios: | | | | |
| Gross profit margin | 18.3 | 17.6 | 17.0 | 16.5 |
| Operating income margin | 4.8 | 2.9 | 3.4 | 3.4 |
| Recurring income margin | 5.2 | 2.9 | 3.7 | 3.4 |
| Return on assets (ROA)* ³ | 7.7 | 4.4 | 5.6 | 5.6 |
| Return on equity (ROE)* ³ | 13.3 | 4.0 | 8.0 | 11.0 |
| Equity ratio | 34.6 | 34.3 | 36.9 | 33.9 |
| Interest-bearing debt ratio* ⁴ | 37.3 | 32.8 | 29.6 | 29.8 |
| Current ratio | 158.6 | 156.9 | 154.1 | 137.0 |
| Interest coverage ratio (times)* ⁵ | 27.1 | 43.1 | 12.6 | 44.2 |

*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

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|----------|----------|----------|----------|-----------|----------|----------|
| ¥845,184 | ¥831,870 | ¥797,493 | ¥723,923 | ¥823,810 | ¥861,357 | ¥911,674 |
| 141,436 | 136,873 | 132,568 | 124,269 | 133,493 | 135,277 | 141,117 |
| 116,105 | 117,682 | 118,330 | 114,522 | 126,656 | 128,041 | 120,711 |
| 25,330 | 19,191 | 14,238 | 9,747 | 6,837 | 7,235 | 20,405 |
| 26,981 | 20,714 | 14,206 | 9,465 | 6,160 | 7,659 | 21,259 |
| 15,923 | 9,271 | 5,175 | 2,377 | 1,028 | 1,115 | 11,954 |
| ¥547,973 | ¥503,496 | ¥489,417 | ¥469,738 | ¥427,738 | ¥450,730 | ¥500,136 |
| 91,335 | 94,509 | 89,665 | 88,338 | 81,700 | 64,156 | 76,453 |
| 69,229 | 67,923 | 69,229 | 66,786 | 49,127 | 25,816 | 25,739 |
| 193,250 | 169,335 | 163,110 | 162,930 | 156,192 | 173,089 | 188,855 |
| ¥ 45,910 | ¥ 26,873 | ¥ 17,515 | ¥ 37,239 | ¥ (8,161) | ¥ 26,106 | ¥ 7,084 |
| (28,662) | (32,903) | (13,247) | (19,117) | (29,062) | (17,587) | (7,102) |
| (5,305) | (5,622) | 372 | 11,546 | 24,196 | (4,262) | 665 |
| 75,658 | 63,839 | 75,582 | 71,662 | 40,730 | 54,475 | 50,311 |
| ¥ 7,058 | ¥ 10,970 | ¥ 11,923 | ¥ 10,636 | ¥ 24,075 | ¥ 9,578 | ¥ 7,020 |
| 2,890 | 2,786 | 2,434 | 1,561 | 2,013 | 1,694 | 1,586 |
| 343 | 194 | 215 | 395 | 150 | 222 | 420 |
| 10,291 | 13,950 | 14,572 | 12,592 | 26,238 | 11,494 | 9,026 |
| 8,978 | 8,469 | 8,437 | 8,502 | 8,477 | 7,258 | 6,476 |
| Yen | | | | | | |
| ¥ 89.89 | ¥ 52.34 | ¥ 29.21 | ¥ 13.42 | ¥ 5.80 | ¥ 6.29 | ¥ 67.43 |
| 1,086.68 | 954.81 | 919.54 | 917.82 | 880.94 | 975.99 | 1,059.20 |
| 17.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| % | | | | | | |
| 16.7 | 16.5 | 16.6 | 17.2 | 16.2 | 15.7 | 15.5 |
| 3.0 | 2.3 | 1.8 | 1.3 | 0.8 | 0.8 | 2.2 |
| 3.2 | 2.5 | 1.8 | 1.3 | 0.7 | 0.9 | 2.3 |
| 5.1 | 4.2 | 3.0 | 2.1 | 1.4 | 1.6 | 4.4 |
| 8.8 | 5.6 | 3.2 | 1.5 | 0.6 | 0.6 | 6.6 |
| 35.1 | 33.6 | 33.3 | 34.6 | 36.5 | 38.4 | 37.5 |
| 26.5 | 28.7 | 29.8 | 29.1 | 23.9 | 13.0 | 12.1 |
| 133.1 | 137.1 | 136.8 | 140.3 | 141.6 | 127.6 | 129.3 |
| 34.9 | 20.0 | 13.7 | 31.8 | — | 17.9 | 5.6 |

Market Overview

In fiscal 2016, ended March 31, 2017, a mild global economic recovery was sustained by the continued recovery in the United States and a revival in China, despite weaker signs in some emerging markets. The Japanese economy continued to recover modestly, with increases in capital investment by firms offsetting persistently lackluster consumer spending.

With housing loan interest rates at historical lows and the rental sector the leading contributor to strength in housing starts, the domestic housing market performed well. The number of new housing starts rose 5.8% year on year to 974,000, with housing starts by owner-occupiers among these increasing 2.6% to 292,000.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales rose 7.0% year on year to ¥1,113,364 million. The Sumitomo Forestry Group worked to improve the profitability of the Timber and Building Materials and Custom-Built Detached Housing businesses in Japan, while also working to diversify revenue streams by expanding our business domains, including aggressive investment of management resources in the Apartment business, the Renovation business, the MOCCA (Timber Solutions) Business, which promotes the adoption of timber construction in non-residential buildings and of wood-based interior finishings, Overseas businesses, the Biomass Power Generation business and management of private-pay elderly care facilities. The amount of orders for custom-built detached houses fell 3.0% to ¥288,458 million, reflecting a lower volume of orders partially offset by higher unit prices.

2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses fell 1.9% year on year to ¥150,149 million. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 9.6% to ¥155,131 million. The increase in SG&A expenses on this basis was mainly due to an increase in expenses due to the consolidation of DRB Group and Wisdom Group as subsidiaries in fiscal 2015.

3 Operating Income, Recurring Income

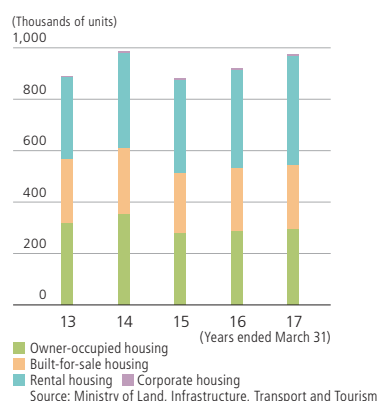
Operating income rose 79.4% year on year to ¥53,989 million and recurring income rose 89.6% to ¥57,841 million. Earnings on a core business basis excluding actuarial differences also increased, rising 17.7% at the operating level to ¥49,008 million and 25.7% at the recurring level to ¥52,860 million. The latter figure marked a new record high, surpassing ¥50 billion for the first time. This result reflected the fresh earnings contributions from the DRB Group and the Wisdom Group, in addition to growth in sales of custom-built detached houses and rental housing and another strong performance by the Overseas business. Profits rose across all business segments.

4 Profit Attributable to Owners of Parent

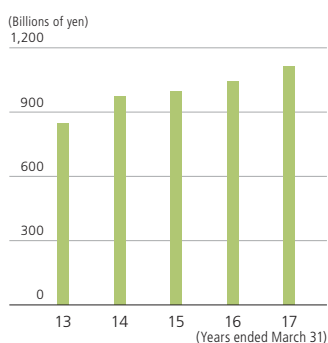
Profit attributable to owners of parent increased 255.0% year on year to ¥34,532 million. This mainly reflected the impact of the Gehan Homes Group becoming a wholly owned subsidiary, as well as special factors such as changes in actuarial differences and the recording of impairment losses in the previous fiscal year.

Profit attributable to owners of the parent per share rose ¥140.03 year on year to ¥194.95.

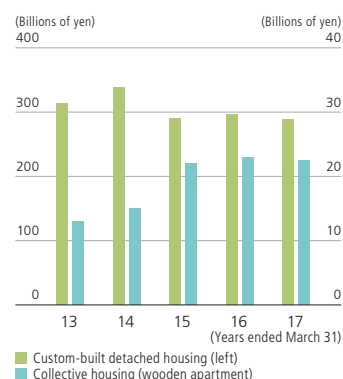
Number of New Housing Starts in Japan



Net Sales



Amount of Orders Received



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 declined 0.6% year on year to ¥424,440 million, while recurring income rose 32.9% to ¥4,456 million.

In the domestic timber and building materials business, sales were on par with fiscal 2015 as a stronger yen reduced the prices for imported products. We maintained profits by squeezing inventories and working to reduce costs. As part of diversifying earnings sources, we also focused on expanding our presence in the market for wood chips for biomass power generation, and developed and marketed Kigurumi CT, a highly cost competitive, original fire-resistant structural material finished in wood that is used in medium to large wooden structures. Profitability improved in the domestic building materials manufacturing business, with sales in line with targets.

In the overseas distribution business, our focus was on selling timber and building materials to countries in Southeast Asia, mainly Singapore (where our regional headquarters is based).

2 Housing Business

Net sales in the Housing Business increased 2.6% year on year to ¥466,298 million, and recurring income rose 2.7% to ¥32,349 million.

Custom-Built Detached Housing Business

The Custom-Built Detached Housing Business posted higher sales than in the previous year, in part due to more completions of homes built using our original Big-Frame (BF) construction

method, which has superior earthquake resistance and offers greater design flexibility that enables provision of dwellings with a sense of spaciousness. We also focused on growing sales of homes specified as Zero Energy House (ZEH), which consumes net zero energy. In products, we introduced the “BF-Si Resilience Plus” homes, which offer plenty of storage space and survival features for the contingency of a short-term lifeline interruption. We also introduced a virtual reality system that allows customers to experience design plans in 3D in the aim of fun, easy-to-understand hands-on home development.

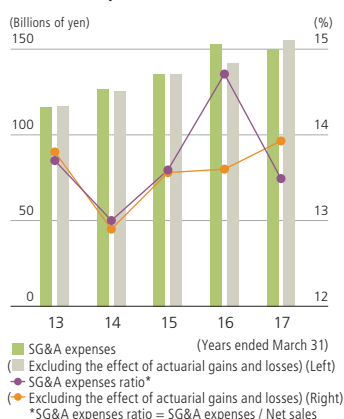
Apartment Business

The Apartment Business posted another rise in net sales. We focused on marketing rental housing that can cater flexibly to the changing needs of residents using highly versatile spaces based on our original “Wall Frame (WF)” method. The number of units delivered was higher than in the previous year, reflecting greater interest in asset utilization after revisions to Japan’s inheritance tax in 2015. Upgrading our customer support service infrastructure, we also opened the Shinjuku Forest Maison Plaza to offer specialized consulting services aimed at giving practical support for stable long-term management of rental housing.

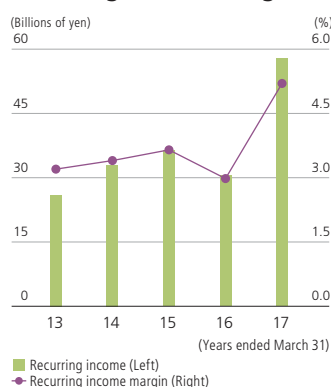
Renovation Business

In the Renovation Business, to help promote higher asset values by promoting seismic reinforcement of established housing, we pioneered a system in the renovation industry that enables homeowners looking to rent out their houses to gain rent guarantees of up to 35 years from the Japan Trans-housing Institute by undertaking earthquake-proofing renovations meeting certain standards through Sumitomo Forestry Home Tech Co., Ltd. Segment profits declined due to lack of growth in sales from large-scale renovation projects.

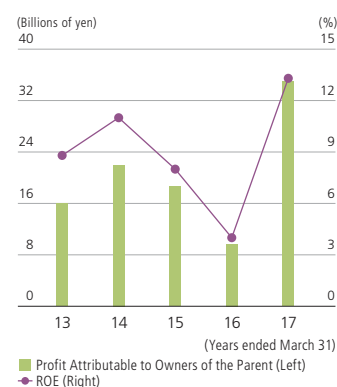
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



MOCCA (timber solutions) Business

In our MOCCA (Timber Solutions) Business, we endeavored to expand the market for medium to high-rise wooden buildings amid increasing interest in constructing and finishing public buildings from timber harvested in Japan, including in urban areas where fire-resistant structures are required, such as the order we received for a seven-story office building with a steel frame coated in fire-proofed timber. A project to rebuild an elementary school in an area affected by the Great East Japan Earthquake on higher ground with locally sourced timber was also completed.

3 Overseas Business

Net sales in the Overseas Business jumped 31.9% year on year to ¥247,890 million, and recurring income rose 47.5% to ¥19,310 million.

Profits increased substantially in our Overseas Manufacturing Business due to higher sales of medium density fiberboard (MDF) from New Zealand to Japan and North America, coupled with lower manufacturing costs due to declines in the purchase prices of raw materials. Meanwhile, profits were lower in Indonesia, reflecting a decline in unit selling prices for our main product, plywood, driven by fierce price competition in the market. In Australia, the Group sold its entire equity stake in local MDF manufacturer Alpine MDF Industries Pty Ltd. in March 2017 after a review of how best to optimize resources and streamline management.

Profits continued to increase in the Overseas Housing and Real Estate Business, reflecting stable housing markets in the United States and Australia. With every Group company

recording higher sales, the business gained an extra boost from the contribution of the DRB Group, a housing firm based in the eastern United States in which we acquired an equity stake in January 2016. We also bought the rest of the equity in U.S. consolidated subsidiary Gehan Homes Group in April 2016 and acquired a 51% stake in the Wisdom Group, a housing company based in Sydney, Australia, in July 2016, making them consolidated subsidiaries. As a result of these M&As, we achieved our goal of annual sales of over 8,000 detached homes from overseas operations.

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 the biomass power generation business, we commenced operations at a facility in the city of Monbetsu in Hokkaido in December 2016. In addition, our Indonesian forestation business performed better than planned in fiscal 2016, after booking impairment losses in the previous year.

Net sales in Other Businesses increased 36.2% year on year to ¥22,979 million, and recurring income totaled ¥2,223 million, compared with a recurring loss of ¥1,022 million in the previous year.

Housing Business

| (Years ended March 31) | | 2014 | 2015 | 2016 | 2017 |
|--|-------------|----------|----------|----------|----------|
| Orders | | | | | |
| Custom-Built Detached Housing | (¥ million) | ¥339,909 | ¥290,203 | ¥297,490 | ¥288,458 |
| | (Units) | 9,364 | 7,804 | 7,730 | 7,427 |
| Apartment | (¥ million) | ¥ 15,502 | ¥ 21,790 | ¥ 22,967 | ¥ 22,540 |
| | (Units) | 1,140 | 1,486 | 1,523 | 1,519 |
| Renovation (Sumitomo Forestry Home Tech Co., Ltd.) | (¥ million) | ¥ 61,004 | ¥ 55,887 | ¥ 63,604 | ¥ 63,202 |
| Sales | | | | | |
| Custom-Built Detached Housing | (¥ million) | ¥320,260 | ¥313,396 | ¥299,837 | ¥306,307 |
| | (Units) | 9,243 | 8,743 | 7,962 | 8,098 |
| Apartment | (¥ million) | ¥ 13,130 | ¥ 13,569 | ¥ 20,514 | ¥ 22,125 |
| | (Units) | 1,124 | 1,014 | 1,324 | 1,551 |
| Detached Spec Homes | (¥ million) | ¥ 9,723 | ¥ 10,174 | ¥ 11,606 | ¥ 11,206 |
| | (Units) | 242 | 272 | 303 | 292 |
| Renovation (Sumitomo Forestry Home Tech Co., Ltd.) | (¥ million) | ¥ 59,336 | ¥ 56,656 | ¥ 61,724 | ¥ 61,245 |

Segment Performance Highlights

| (Years ended March 31) | Millions of yen | | | |
|--|-----------------|-------------------|----------|-------------------|
| | 2016 | 2017 | Change | Percent of change |
| Net Sales | ¥1,040,524 | ¥1,113,364 | + 72,839 | + 7.0% |
| Timber and Building Materials Business | 426,965 | 424,440 | - 2,525 | - 0.6% |
| Housing Business | 454,604 | 466,298 | + 11,695 | + 2.6% |
| Overseas Business | 187,926 | 247,890 | + 59,964 | + 31.9% |
| Other Businesses | 16,874 | 22,979 | + 6,105 | + 36.2% |
| Adjustments | (45,844) | (48,243) | - 2,399 | — |
| Recurring Income | ¥ 30,507 | ¥ 57,841 | + 27,335 | + 89.6% |
| Timber and Building Materials Business | 3,352 | 4,456 | + 1,104 | + 32.9% |
| Housing Business | 31,512 | 32,349 | + 838 | + 2.7% |
| Overseas Business | 13,091 | 19,310 | + 6,219 | + 47.5% |
| Other Businesses | (1,022) | 2,223 | + 3,245 | — |
| Adjustments | (16,427) | (497) | + 15,930 | — |

* 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 | |
|-----------------------------------|-----------|-----------------|------------------|--------------|
| | 2016 | 2017 | 2016 | 2017 |
| Sumitomo Forestry Crest Co., Ltd. | ¥ 36,545 | ¥ 35,911 | ¥ (616) | ¥ 647 |

Housing Business

| (Years ended March 31) | Net Sales | | Recurring Income | |
|--|-----------|----------------|------------------|----------------|
| | 2016 | 2017 | 2016 | 2017 |
| Sumitomo Forestry Residential Co., Ltd. | ¥22,661 | ¥24,355 | ¥ 818 | ¥ 1,097 |
| Sumitomo Forestry Home Engineering Co., Ltd. | 77,454 | 82,524 | 739 | 1,045 |
| Sumitomo Forestry Home Service Co., Ltd. | 5,945 | 6,590 | 289 | 738 |
| Sumitomo Forestry Landscaping Co., Ltd. | 28,996 | 28,593 | 1,024 | 1,734 |
| Sumitomo Forestry Home Tech Co., Ltd. | 64,854 | 64,680 | 2,673 | 2,240 |

Overseas Business

| (Years ended December 31) | Net Sales | | Recurring Income | |
|---|-----------|----------------|------------------|--------------|
| | 2015 | 2016 | 2015 | 2016 |
| Overseas Subsidiaries* ¹ | | | | |
| PT. Kutai Timber Indonesia (Indonesia) | ¥13,583 | ¥11,833 | ¥ 838 | ¥ 219 |
| Henley Group (Australia) | 73,281 | 65,716 | 6,346 | 5,144 |
| Nelson Pine Industries Ltd. (New Zealand) | 17,281 | 16,217 | 1,018 | 2,390 |
| DRB Group (U.S.A.) | — | 46,376 | — | 2,723 |
| MainVue Homes Group (U.S.A.) | 814 | 16,943 | 58 | 2,584 |
| Gehan Homes Group (U.S.A.) | 59,061 | 59,018 | 6,952 | 6,719 |

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

| | US\$ | AU\$ | NZ\$ |
|----------|--------|-------|-------|
| 2015/12: | 121.05 | 91.06 | 84.71 |
| 2016/12: | 108.74 | 80.83 | 75.72 |

Financial Position and Cash Flow

1 Financial Position

At the end of March 2017, total assets totaled ¥793,617 million, an increase of ¥83,299 million year on year. The increase was attributable mainly to an increase of timber in conjunction with the acquisition of a forest asset in New Zealand and an increase in inventories accompanying expansion of the Overseas Housing and Real Estate Business.

Liabilities increased by ¥53,212 million compared to the end of the previous consolidated fiscal year to ¥498,273 million. This reflected the issuance of corporate bonds to fund the aforementioned acquisition of a forest asset in New Zealand and an increase in long-term loans payable.

Net assets totaled ¥295,344 million, and the equity ratio was 34.6%.

2 Cash Flow

Cash flows from operating activities

Net cash provided by operating activities totaled ¥40,337 million. Income before income taxes of ¥58,523 million was offset by cash outflows due to an increase in inventories associated with the expansion of the Overseas Housing and Real Estate Business.

Cash flows from investment activities

Net cash used in investing activities amounted to ¥62,350 million. This reflected the acquisition of forest assets in New Zealand, capital expenditures at domestic biomass power generation plants, and the purchase of equity interests in housing companies in the United States and Australia, among other factors.

Cash flows from financing activities

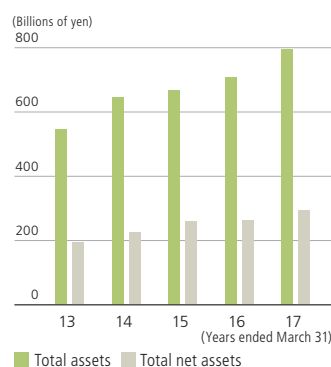
Net cash provided by financing activities totaled ¥14,267 million. Cash outflows associated with the purchase of an additional stake in a U.S.-based consolidated subsidiary and dividend payments were offset by cash inflows due to increases in interest-bearing debt, including the issuance of corporate bonds.

As a result of the above, cash and cash equivalents at March 31, 2017, stood at ¥132,707 million, a decrease of ¥8,558 million from the end of the previous fiscal year.

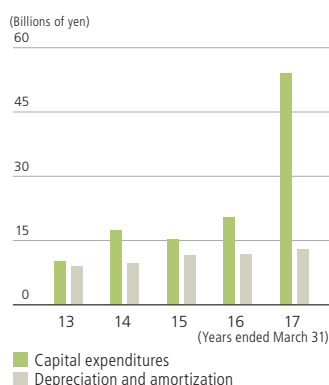
3 Capital Expenditures (Capital Investment)

Capital expenditures increased by 164.7% from ¥20,448 million in the previous fiscal year to ¥54,128 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥50,940 million, while investment in intangible fixed assets came to ¥2,839 million. Major investments included ¥30,263 million for the acquisition of a forest asset in New Zealand, ¥8,576 million for expenditures at biomass power plants, ¥7,412 million for model homes inside and outside Japan, and ¥2,501 million for plant facilities in an outside of Japan.

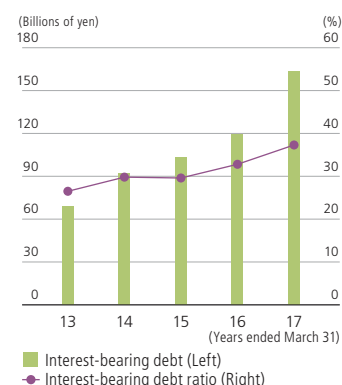
Total Assets and Total Net Assets



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 Sheet

Financial Section

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|--|-----------------|-----------------|---------------------------------------|
| ASSETS | 2017 | 2016 | 2017 |
| Current assets: | | | |
| Cash and time deposits (Notes 7, 12, 16) | ¥111,506 | ¥ 83,499 | \$ 995,585 |
| Marketable securities (Notes 5, 12, 16) | 6,500 | 34,000 | 58,036 |
| Receivables— | | | |
| Notes and accounts, trade (Notes 7, 16, 17) | 123,454 | 127,138 | 1,102,272 |
| Loans and other (Notes 7, 16) | 76,349 | 78,795 | 681,684 |
| Inventories— | | | |
| Finished goods, logs and lumber | 24,013 | 26,105 | 214,405 |
| Construction projects in progress (Note 7) | 23,934 | 23,906 | 213,699 |
| Real estate for sale (Note 7) | 48,249 | 43,239 | 430,794 |
| Real estate for sale in process (Note 7) | 79,756 | 56,371 | 712,106 |
| Deferred tax assets (Note 9) | 7,001 | 7,377 | 62,506 |
| Other current assets | 13,391 | 11,881 | 119,560 |
| Allowance for doubtful accounts | (438) | (842) | (3,908) |
| Total current assets | 513,715 | 491,469 | 4,586,739 |
| Property, plant and equipment, at cost less accumulated depreciation: | | | |
| Land (Notes 7, 8, 19) | 30,597 | 26,817 | 273,183 |
| Buildings and structures (Notes 7, 8, 19) | 63,411 | 62,685 | 566,167 |
| Machinery, equipment and vehicles (Notes 7, 8) | 87,807 | 81,197 | 783,994 |
| Timber (Note 8) | 37,546 | 10,450 | 335,231 |
| Construction in progress (Note 7) | 6,013 | 13,572 | 53,688 |
| Leased assets | 10,724 | 9,632 | 95,755 |
| | 236,098 | 204,353 | 2,108,018 |
| Less accumulated depreciation | (90,300) | (95,654) | (806,251) |
| Net property, plant and equipment | 145,798 | 108,700 | 1,301,767 |
| Intangible assets, net of amortization: | | | |
| Goodwill | 12,189 | 6,563 | 108,833 |
| Other intangible assets | 11,229 | 11,882 | 100,258 |
| Total intangible assets | 23,418 | 18,445 | 209,091 |
| Investments and other assets: | | | |
| Investment securities (Notes 5, 7, 16) | 91,806 | 74,875 | 819,697 |
| Long-term loans and receivables | 6,100 | 5,595 | 54,460 |
| Deferred tax assets (Notes 7, 9) | 3,276 | 3,336 | 29,249 |
| Asset for retirement benefits (Note 18) | 142 | 74 | 1,264 |
| Other assets | 11,725 | 9,928 | 104,687 |
| Allowance for doubtful accounts | (2,362) | (2,104) | (21,091) |
| Total investments and other assets | 110,686 | 91,704 | 988,266 |
| Total assets | ¥793,617 | ¥710,318 | \$7,085,863 |

See accompanying notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|-----------------|-----------|---------------------------------------|
| | 2017 | 2016 | 2017 |
| Current liabilities: | | | |
| Payables— | | | |
| Notes and accounts, trade (Notes 16, 17) | ¥182,491 | ¥176,444 | \$1,629,387 |
| Other | 14,715 | 13,165 | 131,387 |
| Short-term loans payable (Notes 6, 7) | 30,232 | 21,592 | 269,931 |
| Current portion of long-term loans payable (Notes 6, 7, 16, 17) | 6,876 | 10,995 | 61,389 |
| Current portion of lease obligation (Note 6) | 1,628 | 1,691 | 14,533 |
| Advances received from customers | 52,179 | 51,922 | 465,881 |
| Accrued income taxes | 5,511 | 7,572 | 49,204 |
| Accrued employees' bonuses | 11,139 | 10,873 | 99,456 |
| Accrued directors and corporate auditors' bonuses | 146 | 130 | 1,304 |
| Other current liabilities (Note 23) | 19,015 | 18,869 | 169,777 |
| Total current liabilities | 323,932 | 313,254 | 2,892,249 |
| Long-term liabilities: | | | |
| Bonds issued (Note 6) | 20,000 | — | 178,571 |
| Bonds with subscription rights to shares (Note 6) | 20,000 | 20,000 | 178,571 |
| Long-term loans payable (Notes 6, 7, 16, 17) | 81,818 | 62,115 | 730,518 |
| Long-term lease obligation (Note 6) | 3,264 | 2,676 | 29,139 |
| Deferred tax liabilities (Note 9) | 11,537 | 5,022 | 103,006 |
| Liability for retirement benefits (Note 18) | 18,732 | 23,718 | 167,251 |
| Other long-term liabilities (Note 23) | 18,990 | 18,275 | 169,557 |
| Total long-term liabilities | 174,341 | 131,807 | 1,556,613 |
| Contingent liabilities (Note 15) | | | |
| Net assets: | | | |
| Shareholders' equity (Note 13): | | | |
| Common stock— | | | |
| Authorized: 400,000,000 shares | | | |
| Issued and outstanding: 177,410,239 shares in 2017 and 177,410,239 shares in 2016 | 27,672 | 27,672 | 247,072 |
| Capital surplus | 18,637 | 26,872 | 166,402 |
| Retained earnings | 196,511 | 166,762 | 1,754,567 |
| Treasury stock: 281,970 shares in 2017 and 280,362 shares in 2016 | (280) | (278) | (2,500) |
| Total shareholders' equity | 242,541 | 221,028 | 2,165,541 |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 25,896 | 16,270 | 231,218 |
| Deferred gain (loss) on hedges | (80) | (58) | (718) |
| Translation adjustments | 6,874 | 6,497 | 61,376 |
| Retirement benefits liability adjustments | (320) | (276) | (2,856) |
| Total accumulated other comprehensive income | 32,370 | 22,432 | 289,020 |
| Subscription rights to shares | 82 | 36 | 730 |
| Non-controlling interests | 20,352 | 21,761 | 181,710 |
| Total net assets | 295,344 | 265,257 | 2,637,001 |
| Total liabilities and net assets | ¥793,617 | ¥710,318 | \$7,085,863 |
| | Yen | | U.S. dollars (Note 4) |
| Per share of common stock: | | | |
| Net assets | ¥1,552.04 | ¥1,374.47 | \$13.86 |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Financial Section

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|-------------------|-------------------|---------------------------------------|
| | 2017 | 2016 | 2017 |
| Net sales | ¥1,113,364 | ¥1,040,524 | \$9,940,747 |
| Cost of sales (Note 3) | 909,225 | 857,390 | 8,118,084 |
| Gross profit | 204,138 | 183,134 | 1,822,663 |
| Selling, general and administrative expenses (Note 11) | 150,149 | 153,041 | 1,340,620 |
| Operating income | 53,989 | 30,093 | 482,043 |
| Other income (expenses): | | | |
| Interest and dividends income | 1,896 | 1,824 | 16,929 |
| Interest expense | (1,560) | (1,236) | (13,928) |
| Equity in earnings (losses) of affiliates | 3,053 | 761 | 27,258 |
| Gain on sales of investment securities (Note 5) | 96 | 33 | 853 |
| Gain on liquidation of subsidiaries and affiliates | 152 | — | 1,362 |
| Gain on sales of shares of subsidiaries and affiliates | 481 | — | 4,292 |
| Impairment loss (Note 8) | (30) | (4,692) | (268) |
| Subsidy income | — | 705 | — |
| Gain on abolishment of retirement benefit plan | — | 144 | — |
| Loss of reduction of non-current assets | — | (705) | — |
| Special retirement payment | — | (71) | — |
| Other gains (losses), net (Notes 5, 10) | 446 | (613) | 3,985 |
| Total | 4,534 | (3,850) | 40,483 |
| Income before income taxes | 58,523 | 26,243 | 522,526 |
| Income taxes (Note 9): | | | |
| Current | 15,652 | 15,808 | 139,754 |
| Deferred | 2,640 | (4,919) | 23,572 |
| Total | 18,292 | 10,889 | 163,326 |
| Profit | 40,230 | 15,354 | 359,200 |
| Profit attributable to non-controlling interests | 5,699 | 5,627 | 50,881 |
| Profit attributable to owners of parent | ¥ 34,532 | ¥ 9,727 | \$ 308,319 |
| | Yen | | U.S. dollars (Note 4) |
| Per share of common stock: | | | |
| Basic profit attributable to owners of parent (Note 21) | ¥194.95 | ¥54.92 | \$1.74 |
| Cash dividends | 35.00 | 24.00 | 0.31 |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|--|-----------------|----------------|---------------------------------------|
| | 2017 | 2016 | 2017 |
| Profit | ¥40,230 | ¥15,354 | \$359,200 |
| Other comprehensive income (Note 22): | | | |
| Unrealized gain (loss) on available-for-sale securities | 9,634 | (6,072) | 86,019 |
| Deferred gain (loss) on hedges | (22) | 65 | (197) |
| Translation adjustments | 350 | (2,300) | 3,128 |
| Retirement benefits liability adjustments | — | 173 | — |
| Share of other comprehensive income of affiliates accounted for by the equity method | (196) | (411) | (1,750) |
| Total other comprehensive income | 9,766 | (8,545) | 87,200 |
| Comprehensive income | ¥49,997 | ¥ 6,809 | \$446,400 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | ¥44,470 | ¥ 1,964 | \$397,054 |
| Non-controlling interests | 5,527 | 4,845 | 49,346 |

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, 2017 and 2016

| | Millions of yen | | | | |
|---|----------------------|-----------------|-------------------|------------------------|----------------------------|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity |
| Balance at April 1, 2016 | ¥27,672 | ¥26,872 | ¥166,762 | ¥(278) | ¥221,028 |
| Changes during the period: | | | | | |
| Cash dividends (¥35.00 per share) | | | (4,782) | | (4,782) |
| Profit attributable to owners of parent | | | 34,532 | | 34,532 |
| Purchases of treasury stock | | | | (2) | (2) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (8,234) | | | (8,234) |
| Change of scope of equity method | | | | | — |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the period | — | (8,234) | 29,749 | (2) | 21,512 |
| Balance at March 31, 2017 | ¥27,672 | ¥18,637 | ¥196,511 | ¥(280) | ¥242,541 |

| | 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, 2016 | ¥16,270 | ¥(58) | ¥6,497 | ¥(276) | ¥22,432 | ¥36 | ¥21,761 | ¥265,257 |
| Changes during the period: | | | | | | | | |
| Cash dividends (¥35.00 per share) | | | | | | | | (4,782) |
| Profit attributable to owners of parent | | | | | | | | 34,532 |
| Purchases of treasury stock | | | | | | | | (2) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | | | (8,234) |
| Change of scope of equity method | | | | | | | | — |
| Net changes in items other than shareholders' equity | 9,627 | (22) | 377 | (44) | 9,938 | 46 | (1,410) | 8,575 |
| Total changes during the period | 9,627 | (22) | 377 | (44) | 9,938 | 46 | (1,410) | 30,087 |
| Balance at March 31, 2017 | ¥25,896 | ¥(80) | ¥6,874 | ¥(320) | ¥32,370 | ¥82 | ¥20,352 | ¥295,344 |

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, 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) |
| 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 March 31, 2016 | ¥27,672 | ¥26,872 | ¥166,762 | ¥(278) | ¥221,028 |

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, 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) |
| Change of scope of equity method | | | | | | | | — |
| Net changes in items other than shareholders' equity | (6,072) | 65 | (1,604) | (153) | (7,763) | 36 | 6,730 | (998) |
| Total changes during the period | (6,072) | 65 | (1,604) | (153) | (7,763) | 36 | 6,730 | 4,475 |
| Balance at March 31, 2016 | ¥16,270 | ¥ (58) | ¥ 6,497 | ¥(276) | ¥22,432 | ¥36 | ¥21,761 | ¥265,257 |

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars (Note 4)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|------------------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity |
| Balance at April 1, 2016 | \$247,072 | \$239,923 | \$1,488,949 | \$(2,478) | \$1,973,466 |
| Changes during the period: | | | | | |
| Cash dividends (\$0.31 per share) | | | (42,701) | | (42,701) |
| Profit attributable to owners of parent | | | 308,319 | | 308,319 |
| Purchases of treasury stock | | | | (22) | (22) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (73,521) | | | (73,521) |
| Change of scope of equity method | | | | | — |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the period | — | (73,521) | 265,618 | (22) | 192,075 |
| Balance at March 31, 2017 | \$247,072 | \$166,402 | \$1,754,567 | \$(2,500) | \$2,165,541 |

Thousands of U.S. dollars (Note 4)

| | 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, 2016 | \$145,264 | \$(521) | \$58,009 | \$(2,467) | \$200,285 | \$320 | \$194,295 | \$2,368,367 |
| Changes during the period: | | | | | | | | |
| Cash dividends (\$0.31 per share) | | | | | | | | (42,701) |
| Profit attributable to owners of parent | | | | | | | | 308,319 |
| Purchases of treasury stock | | | | | | | | (22) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | | | (73,521) |
| Change of scope of equity method | | | | | | | | — |
| Net changes in items other than shareholders' equity | 85,954 | (197) | 3,367 | (389) | 88,735 | 410 | (12,585) | 76,559 |
| Total changes during the period | 85,954 | (197) | 3,367 | (389) | 88,735 | 410 | (12,585) | 268,634 |
| Balance at March 31, 2017 | \$231,218 | \$(718) | \$61,376 | \$(2,856) | \$289,020 | \$730 | \$181,710 | \$2,637,001 |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|-----------------|-----------------|---------------------------------------|
| | 2017 | 2016 | 2017 |
| Cash flows from operating activities: | | | |
| Income before income taxes | ¥ 58,523 | ¥ 26,243 | \$ 522,526 |
| Adjustments— | | | |
| Depreciation and amortization | 12,887 | 11,753 | 115,062 |
| Impairment loss | 30 | 4,692 | 268 |
| Amortization of goodwill | 2,274 | 2,190 | 20,302 |
| Provision for (reversal of) doubtful accounts | 48 | (492) | 431 |
| Net changes in defined benefit liability | (5,117) | 10,887 | (45,684) |
| Interest and dividends income | (1,896) | (1,824) | (16,929) |
| Interest expense | 1,560 | 1,236 | 13,928 |
| Equity in losses (earnings) of affiliates | (3,053) | (761) | (27,258) |
| Losses (gains) on sales of marketable securities and investment securities, net | (88) | (33) | (782) |
| Losses on devaluation of marketable securities and investment securities | 1 | — | 12 |
| Losses (gains) on disposal of fixed assets, net | 8 | (326) | 70 |
| Change in assets and liabilities: | | | |
| Notes and accounts receivable, trade | 2,986 | (3,045) | 26,662 |
| Inventories | (16,920) | (13,249) | (151,072) |
| Other current assets | 307 | (3,739) | 2,745 |
| Notes and accounts payable, trade | 5,027 | 10,258 | 44,883 |
| Advances received from customers | (1,415) | 1,903 | (12,632) |
| Other current liabilities | 862 | 6,432 | 7,696 |
| Other | (576) | 3,751 | (5,143) |
| Total | 55,449 | 55,877 | 495,085 |
| Interest and dividends income received | 4,778 | 3,776 | 42,660 |
| Interest paid | (1,488) | (1,061) | (13,289) |
| Income taxes paid, net | (18,402) | (12,888) | (164,306) |
| Net cash provided by operating activities | 40,337 | 45,705 | 360,150 |
| Cash flows from investment activities: | | | |
| Payments into time deposits | (20,830) | (30,237) | (185,985) |
| Proceeds from withdrawal of time deposits | 11,759 | 58,436 | 104,995 |
| Decrease (increase) in short-term loans receivable | 3,408 | (1,667) | 30,432 |
| Proceeds from sales of marketable securities | — | 115 | — |
| Payments for purchases of fixed assets | (48,946) | (19,526) | (437,020) |
| Proceeds from sales of fixed assets | 4,480 | 3,291 | 40,001 |
| Payments for purchases of intangible assets | (2,556) | (1,997) | (22,824) |
| Payments for purchases of investment securities | (3,994) | (9,632) | (35,661) |
| Proceeds from sales of investment securities | 386 | 75 | 3,446 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (7,585) | (7,867) | (67,720) |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 3,087 | 8 | 27,559 |
| Payments for long-term loans receivable | (853) | (803) | (7,614) |
| Repayments of long-term loans receivable | 106 | 20 | 949 |
| Other | (813) | (188) | (7,258) |
| Net cash used in investment activities | (62,350) | (9,972) | (556,700) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term loans payable | 12,774 | 5,893 | 114,058 |
| Payments of lease obligations | (2,404) | (2,532) | (21,463) |
| Proceeds from long-term loans payable | 16,490 | 13,076 | 147,235 |
| Repayments of long-term loans payable | (5,886) | (8,326) | (52,557) |
| Proceeds from issuance of bonds | 20,000 | — | 178,571 |
| Redemption of bonds | (5,000) | — | (44,643) |
| Dividends paid | (4,782) | (4,251) | (42,701) |
| Dividends paid to non-controlling shareholders | (2,550) | (2,044) | (22,772) |
| Purchase of shares of subsidiaries not resulting in change in scope of consolidation | (14,750) | — | (131,695) |
| Other | 375 | (2) | 3,350 |
| Net cash provided by (used in) financing activities | 14,267 | 1,813 | 127,383 |
| Effect of exchange rate changes on cash and cash equivalents | (811) | 423 | (7,243) |
| Net increase (decrease) in cash and cash equivalents | (8,558) | 37,969 | (76,410) |
| Cash and cash equivalents at the beginning of the year | 141,265 | 103,296 | 1,261,291 |
| Cash and cash equivalents at the end of the year (Note 12) | ¥132,707 | ¥141,265 | \$1,184,881 |

See accompanying notes to consolidated financial statements.

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

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, an overseas forestation business, 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, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 103 and 29 (84 and 26 in 2016), respectively.

The Wisdom Group and the Edge Homes Group, whose shares were newly acquired, and the newly established Tasman Pine Forests Ltd. have been included in the scope of consolidation from the fiscal year ended

March 31, 2017.

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

Phu Hung Thai Development Joint Stock Company, Justin Timberbrook, LLC and DRSFA, LLC, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2017.

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, 2017, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,849 million (\$34,363 thousand).

(h) Accrued employees' retirement benefits

Accrued retirement benefits and prepaid pension costs 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, 2017, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥80 million (\$712 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 ¥867 million (\$7,738 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2017.

(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.

"Timber" consists of mature timber and growing timber in natural forests, purchased forests and planted forests.

(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.

The allocation method is applied to foreign exchange hedging transactions. The exceptional method is used for interest rate swaps in case they satisfy the requirements for the exceptional method.

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 exceptional method 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) 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.

(s) 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.

(t) Consumption taxes

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

(u) 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.

(v) Earnings per share of common stock

The computation of profit attributable to owners of parent per share and cash dividends per share is based on the average number of shares outstanding during each period.

(w) Finalization of provisional accounting treatment of business combinations

The revised purchase price allocation arising from the finalization of provisional accounting treatment is reflected on the consolidated financial statements for the period in which the business combination occurs.

Provisional accounting treatment had been applied to the business combination involving the DRB Group (DRB Enterprises, LLC and seven other companies) that was conducted on January 1, 2016 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2017.

As a result, certain accounts in the consolidated financial statements and figures as of March 31, 2016 in notes 9, 12, 20 and 21 reflect the revision of the initially allocated amounts of the purchase price. See Note 25 for further details.

(x) Accounting change

The Company and its domestic consolidated subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ PITF No.32, June 17, 2016) as a result of revisions to the Corporate Tax Act of Japan. Accordingly, the depreciation method for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact on profit and loss due to the change for the year ended March 31, 2017 above was immaterial.

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 ¥112 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2017. 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, 2017 and 2016 were as follows:

| Millions of yen | | | |
|---------------------------|------------------|------------------|---|
| 2017 | | | |
| | Acquisition cost | Unrealized gains | Unrealized losses |
| Securities classified as: | | | Carrying amounts (Estimated fair value) |
| Available-for-sale: | | | |
| Equity securities | ¥28,437 | ¥36,951 | ¥(177) |
| Debt securities | — | — | — |
| Other | 6,500 | — | — |

| Millions of yen | | | |
|---------------------------|------------------|------------------|----------------------|
| 2017 | | | |
| | Carrying amounts | Unrealized gains | Unrealized losses |
| Securities classified as: | | | Estimated fair value |
| Held-to-maturity: | | | |
| Debt securities | ¥1,765 | ¥74 | ¥— |

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

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

| Thousands of U.S. dollars | | | |
|---------------------------|------------------|------------------|---|
| 2017 | | | |
| Securities classified as: | Acquisition cost | Unrealized gains | Unrealized losses |
| Available-for-sale: | | | Carrying amounts (Estimated fair value) |
| Equity securities | \$253,905 | \$329,916 | \$(1,580) |
| Debt securities | — | — | — |
| Other | 58,036 | — | — |

| Thousands of U.S. dollars | | | |
|---------------------------|------------------|------------------|----------------------|
| 2017 | | | |
| Securities classified as: | Carrying amounts | Unrealized gains | Unrealized losses |
| Held-to-maturity: | | | Estimated fair value |
| Debt securities | \$15,756 | \$659 | \$— |

(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, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------|-----------------|------|---------------------------|
| | 2017 | 2016 | 2017 |
| Proceeds | ¥190 | ¥75 | \$1,692 |
| Gross gains | 96 | 33 | 853 |
| Gross losses | 8 | — | 71 |

(c) Investments in affiliates included in "Investment securities" as of March 31, 2017 and 2016 were ¥19,898 million (\$177,662 thousand) and ¥18,176 million, respectively.

6. Short-Term and Long-Term Debt

Short-term debt at March 31, 2017 and 2016 generally represented short-term loans payable which bore interest of 1.97% and 1.59% per annum, respectively. Long-term debt at March 31, 2017 and 2016 was summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Loans, principally from banks and insurance companies, due 2017 to 2035 with interest of 2.33%: | | | |
| Secured: | | | |
| Loans from banks or other | ¥ 35,666 | ¥30,623 | \$ 318,449 |
| Unsecured: | | | |
| Bonds issued | 20,000 | 5,000 | 178,571 |
| Bonds with subscription rights to shares | 20,000 | 20,000 | 178,571 |
| Loans from banks or other | 53,027 | 37,487 | 473,460 |
| Lease obligation | 4,891 | 4,368 | 43,672 |
| | 133,585 | 97,478 | 1,192,723 |
| Portion due within one year: | | | |
| Bonds issued | — | 5,000 | — |
| Loans from banks or other | 6,876 | 5,995 | 61,389 |
| Lease obligation | 1,628 | 1,691 | 14,533 |
| | 8,503 | 12,686 | 75,923 |
| | ¥125,082 | ¥84,792 | \$1,116,800 |

The aggregate annual maturities of bonds issued, long-term loans payable and lease obligation at March 31, 2017 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|------------|-----------------|-------------------------|------------------|---------------------------|-------------------------|------------------|
| | Bonds issued | Long-term loans payable | Lease obligation | Bonds issued | Long-term loans payable | Lease obligation |
| 2017 | ¥ — | ¥ 6,876 | ¥1,628 | \$ — | \$ 61,389 | \$14,533 |
| 2018 | 20,000 | 29,553 | 1,393 | 178,571 | 263,862 | 12,441 |
| 2019 | — | 21,659 | 797 | — | 193,383 | 7,115 |
| 2020 | — | 7,188 | 305 | — | 64,179 | 2,720 |
| 2021 | — | 7,875 | 116 | — | 70,310 | 1,039 |
| Thereafter | 20,000 | 15,544 | 652 | 178,572 | 138,785 | 5,824 |
| | ¥40,000 | ¥88,694 | ¥4,891 | \$357,143 | \$791,908 | \$43,672 |

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Cash and time deposits | ¥ 2,353 | ¥ 3,458 | \$ 21,007 |
| Receivables—Notes and accounts, trade | 2,252 | 1,375 | 20,104 |
| Receivables—Other | 259 | 476 | 2,309 |
| Construction projects in progress | 192 | 572 | 1,714 |
| Real estate for sale | 23,065 | 20,145 | 205,939 |
| Real estate for sale in process | 45,195 | 38,055 | 403,526 |
| Land | 3,927 | 3,080 | 35,060 |
| Buildings and structures | 4,056 | 4,163 | 36,216 |
| Machinery, equipment and vehicles | 860 | 984 | 7,677 |
| Construction in progress | 860 | 243 | 7,674 |
| Investment securities | 14,430 | 12,275 | 128,840 |
| Other | 2,637 | 1,674 | 23,547 |
| | ¥100,085 | ¥86,499 | \$893,613 |

(b) Secured liabilities

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Short-term loans payable | ¥ 2,417 | ¥ 4,447 | \$ 21,583 |
| Long-term loans payable | 34,906 | 30,473 | 311,663 |
| Other | 228 | 478 | 2,034 |
| | ¥37,551 | ¥35,398 | \$335,280 |

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2017 and 2016 consisted of the following:

| Location | Major use | Asset category | Millions of yen | Thousands of U.S. dollars |
|------------------------------|-------------|--------------------------|-----------------|---------------------------|
| | | | 2017 | 2017 |
| Saijo City, Ehime Prefecture | Idle assets | Buildings and structures | ¥ 1 | \$6 |
| | | Land | 16 | 141 |
| | | Total | ¥16 | \$147 |

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 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 2016 |
|--|-------------------------------------|-----------------------------------|-------------------------|
| Osaka City, Osaka Prefecture | 2 buildings for rental condominiums | Buildings and structures | ¥ 405 |
| | | Land | 718 |
| | | Total | 1,123 |
| Kokopo, East New Britain, Papua New Guinea | Afforestation business assets | Buildings and structures | 662 |
| | | Machinery, equipment and vehicles | 414 |
| | | Land | 4 |
| | | Timber | 2,002 |
| | | Other | 427 |
| | | Total | 3,509 |
| Komatsushima City, Tokushima Prefecture | Idle assets | Land | 32 |
| | | Total | 32 |
| Saijo City, Ehime Prefecture | Idle assets | Land | 28 |
| | | Total | 28 |
| | | | ¥4,692 |

9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes. The effective statutory tax rates for the years ended March 31, 2017 and 2016 were 30.9% and 33.1%, respectively.

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

| | 2017 | 2016 |
|--|------|-------|
| 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, 2017 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, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2017 | 2016 | 2017 |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 906 | ¥ 826 | \$ 8,086 |
| Accrued employees' bonuses | 3,230 | 3,194 | 28,842 |
| Accrued legal welfare expense on employees' bonuses | 475 | 446 | 4,237 |
| Enterprise taxes | 423 | 557 | 3,772 |
| Devaluation of real estate for sale | 488 | 423 | 4,360 |
| Liability for retirement benefits | 5,558 | 7,061 | 49,623 |
| Devaluation of property | 775 | 789 | 6,923 |
| Devaluation of financial instruments | 1,673 | 1,794 | 14,934 |
| Tax loss carryforwards | 2,666 | 2,638 | 23,802 |
| Impairment loss | 1,040 | 1,239 | 9,287 |
| Warranty reserve for completed construction | 800 | 530 | 7,142 |
| Unrealized profit on fixed assets | 464 | 401 | 4,141 |
| Other | 4,228 | 4,082 | 37,748 |
| Gross deferred tax assets | 22,724 | 23,980 | 202,897 |
| Valuation allowance | (7,054) | (7,335) | (62,984) |
| Total deferred tax assets | 15,670 | 16,645 | 139,913 |
| Deferred tax liabilities: | | | |
| Deferred gains on sales of property | (757) | (757) | (6,757) |
| Gain on securities contributed to employee retirement benefit trusts | (1,217) | (1,217) | (10,870) |
| Unrealized gain on available-for-sale securities | (10,834) | (6,752) | (96,733) |
| Land revaluation differences | (844) | (964) | (7,537) |
| Taxes on undistributed earnings of subsidiaries | (169) | (54) | (1,507) |
| Other | (3,110) | (1,211) | (27,771) |
| Gross deferred tax liabilities | (16,932) | (10,955) | (151,175) |
| Net deferred tax assets (liabilities) | ¥ (1,261) | ¥ 5,690 | \$ (11,262) |

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2017 and 2016 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Current assets— | | | |
| Deferred tax assets | ¥ 7,001 | ¥ 7,377 | \$ 62,506 |
| Investment and other assets— | | | |
| Deferred tax assets | 3,276 | 3,336 | 29,249 |
| Current liabilities—Other | (1) | (0) | (10) |
| Long-term liabilities— | | | |
| Deferred tax liabilities | (11,537) | (5,022) | (103,006) |
| Net deferred tax assets (liabilities) | ¥ (1,261) | ¥ 5,690 | \$ (11,261) |

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Gain on foreign exchange | ¥ — | ¥ — | \$ — |
| Loss on foreign exchange | (47) | (1,473) | (420) |
| Gain on sales of property, plant and equipment | 193 | 559 | 1,726 |
| Loss on sales of property, plant and equipment | (37) | (51) | (330) |
| Loss on disposal of property, plant and equipment | (164) | (182) | (1,466) |
| Other, net | 501 | 534 | 4,475 |
| | ¥ 446 | ¥ (613) | \$ 3,985 |

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Salaries and allowances | ¥51,274 | ¥46,459 | \$457,800 |
| Provision for employees' bonuses | 9,021 | 8,930 | 80,545 |
| Provision for directors' and corporate auditors' bonuses | 146 | 130 | 1,304 |
| Retirement benefit expenses | (1,990) | 14,218 | (17,765) |
| Provision for directors' and corporate auditors' retirement benefits | 13 | 14 | 117 |
| Allowance for doubtful accounts | 69 | (263) | 615 |
| Provision for warranty reserve for completed construction | 2,178 | 1,452 | 19,450 |

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥1,866 million (\$16,664 thousand) and ¥1,503 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2017 | 2016 | 2017 |
| Cash and time deposits | ¥111,506 | ¥ 83,499 | \$ 995,585 |
| Short-term investments | 6,500 | 34,000 | 58,036 |
| Cash equivalents included in short-term loans receivable | 30,000 | 29,999 | 267,856 |
| Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition | (15,299) | (6,233) | (136,596) |
| Cash and cash equivalents | ¥132,707 | ¥141,265 | \$1,184,881 |

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, 2017 were mainly as follows:

Edge Utah HoldCo, LLC and seventeen other companies

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| | 2017 | 2017 |
| Current assets | ¥13,484 | \$120,395 |
| Non-current assets | 1,661 | 14,832 |
| Goodwill | 5,018 | 44,802 |
| Current liabilities | (7,193) | (64,222) |
| Long-term liabilities | (4,746) | (42,376) |
| Non-controlling interests | (962) | (8,589) |
| Acquisition cost | 7,262 | 64,842 |
| Cash and cash equivalents | (832) | (7,432) |
| Net expenditure for acquisition of shares | ¥ 6,430 | \$ 57,410 |

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 |
|---|-----------------|
| | 2016 |
| Current assets | ¥17,421 |
| Non-current assets | 3,145 |
| Goodwill | 2,898 |
| Current liabilities | (2,071) |
| Long-term liabilities | (8,677) |
| Non-controlling interests | (3,927) |
| Acquisition cost | 8,789 |
| Cash and cash equivalents | (922) |
| Net expenditure for acquisition of shares | ¥ 7,867 |

13. Shareholders' Equity

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

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

The balances of the legal reserve of the Company at March 31, 2017 and 2016, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$25,510 thousand) and ¥2,857 million, respectively.

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

14. Finance Leases

(Lessee)

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

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

15. Contingent Liabilities

Contingent liabilities as at March 31, 2017 and 2016, for loans guaranteed amounted to ¥34,493 million (\$307,971 thousand) and ¥28,418 million.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Guarantee on loans from financial institutions: | | | |
| Guarantees of housing loans to customers | ¥33,820 | ¥27,479 | \$301,968 |
| Kawasaki Biomass Electric Power Co., Ltd. | 656 | 939 | 5,857 |
| MOS Lumber Products Co., Ltd. | 16 | — | 146 |
| Total | ¥34,493 | ¥28,418 | \$307,971 |

16. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term loans receivable 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 payable 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 transactions (interest rate swaps) for hedging a part of such loans. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rates 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 | | |
|--|-----------------|------------|------------------------|
| | 2017 | | |
| | Carrying amount | Fair value | Unrealized gain (loss) |
| Cash and time deposits | ¥111,506 | ¥111,506 | ¥ — |
| Receivables—Notes and accounts, trade | 119,274 | 119,274 | — |
| Marketable securities and investment securities: | | | |
| Held-to-maturity | 1,765 | 1,838 | 74 |
| Available-for-sale | 71,711 | 71,711 | — |
| Receivables—Other | 45,902 | 45,902 | — |
| Total | ¥350,157 | ¥350,231 | ¥74 |
| Payables—Notes and accounts, trade | ¥182,491 | ¥182,491 | ¥ — |
| Long-term loans payable* | 88,694 | 88,135 | 558 |
| Total | ¥271,185 | ¥270,627 | ¥558 |
| Derivatives**: | | | |
| Hedge accounting not applied | ¥ 127 | ¥ 127 | ¥ — |
| Hedge accounting applied | (116) | (116) | — |
| Total | ¥ 11 | ¥ 11 | ¥ — |

| | 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—Other | 46,963 | 46,963 | — |
| Total | ¥337,897 | ¥337,996 | ¥ 99 |
| Payables—Notes and accounts, trade | ¥176,444 | ¥176,444 | ¥ — |
| Long-term loans payable* | 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 | ¥ — |

| | Thousands of U.S. dollars | | |
|--|---------------------------|-------------|------------------------|
| | 2017 | | |
| | Carrying amount | Fair value | Unrealized gain (loss) |
| Cash and time deposits | \$ 995,585 | \$ 995,585 | \$ — |
| Receivables—Notes and accounts, trade | 1,064,951 | 1,064,951 | — |
| Marketable securities and investment securities: | | | |
| Held-to-maturity | 15,756 | 16,415 | 659 |
| Available-for-sale | 640,276 | 640,276 | — |
| Receivables—Other | 409,836 | 409,836 | — |
| Total | \$3,126,404 | \$3,127,063 | \$ 659 |
| Payables—Notes and accounts, trade | \$1,629,387 | \$1,629,387 | \$ — |
| Long-term loans payable* | 791,908 | 786,924 | 4,984 |
| Total | \$2,421,295 | \$2,416,311 | \$4,984 |
| Derivatives**: | | | |
| Hedge accounting not applied | \$ 1,135 | \$ 1,135 | \$ — |
| Hedge accounting applied | (1,035) | (1,035) | — |
| Total | \$ 100 | \$ 100 | \$ — |

* Long-term loans payable include the current portion.

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

Notes:

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

(1) Assets

(Cash and time deposits, Receivables—Notes and accounts, trade, Receivables—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 loans payable)

The fair values of long-term loans payable with floating interest rates approximate book values because the interest rate of long-term loans payable reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing the loans. Therefore, relevant book values are used. The fair values of long-term loans payable 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 17.

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

| | Carrying amount | | |
|----------------------------|-----------------|---------|---------------------------|
| | Millions of yen | | Thousands of U.S. dollars |
| | 2017 | 2016 | 2017 |
| Unlisted equity securities | ¥ 4,932 | ¥ 4,678 | \$ 44,038 |
| Investment in affiliates | 19,898 | 18,176 | 177,662 |

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

| | Millions of yen | | | |
|--|-----------------|--------------------------------------|--|--------------------|
| | 2017 | | | |
| | 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 | ¥110,431 | ¥ — | ¥ — | ¥— |
| Receivables—Notes and accounts, trade | 119,274 | — | — | — |
| Marketable securities and investment securities: | | | | |
| Government bonds | — | 1,168 | 597 | — |
| Other | 6,500 | — | — | — |
| Receivables—Other | 45,902 | — | — | — |
| Total | ¥282,107 | ¥1,168 | ¥597 | ¥— |

| | 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—Other | 46,963 | — | — | — |
| Total | ¥285,585 | ¥960 | ¥801 | ¥— |

| | Thousands of U.S. dollars | | | |
|--|---------------------------|--------------------------------------|--|--------------------|
| | 2017 | | | |
| | 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 | \$ 985,987 | \$ — | \$ — | \$— |
| Receivables—Notes and accounts, trade | 1,064,951 | — | — | — |
| Marketable securities and investment securities: | | | | |
| Government bonds | — | 10,426 | 5,330 | — |
| Other | 58,036 | — | — | — |
| Receivables—Other | 409,836 | — | — | — |
| Total | \$2,518,810 | \$10,426 | \$5,330 | \$— |

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2017 and 2016 were as follows:

| | Millions of yen | | | |
|--|-----------------|------------------------------------|------------|------------------------|
| | 2017 | | | |
| | Contract amount | Contract amount due after one year | Fair value | Unrealized gain (loss) |
| Forward foreign currency exchange contracts: | | | | |
| Sell (Yen) | ¥ 1,703 | ¥137 | ¥ 95 | ¥ 95 |
| Sell (U.S. dollar) | 5,588 | — | 26 | 26 |
| Sell (Euro) | 5 | — | (0) | (0) |
| Sell (Australian dollar) | 2,116 | — | 32 | 32 |
| Buy (U.S. dollar) | 29 | — | 1 | 1 |
| Currency swap contracts: | | | | |
| Pay U.S. dollar / receive Yen | 1,020 | 127 | (36) | (36) |
| Total | ¥10,460 | ¥264 | ¥117 | ¥117 |
| Interest rate swap contracts: | | | | |
| Pay fixed / receive variable | ¥ 1,677 | ¥699 | ¥ 10 | ¥ 10 |
| Total | ¥ 1,677 | ¥699 | ¥ 10 | ¥ 10 |

| | Millions of yen | | | |
|--|-----------------|------------------------------------|------------|------------------------|
| | 2016 | | | |
| | Contract 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: | | | | |
| Pay U.S. dollar / receive Yen | 1,020 | 510 | (66) | (66) |
| Total | ¥30,045 | ¥1,373 | ¥1,560 | ¥1,560 |
| Interest rate swap contracts: | | | | |
| Pay fixed / receive variable | ¥ 1,737 | ¥ 977 | ¥ 9 | ¥ 9 |
| Total | ¥ 1,737 | ¥ 977 | ¥ 9 | ¥ 9 |

| | Thousands of U.S. dollars | | | |
|--|---------------------------|------------------------------------|------------|------------------------|
| | 2017 | | | |
| | Contract amount | Contract amount due after one year | Fair value | Unrealized gain (loss) |
| Forward foreign currency exchange contracts: | | | | |
| Sell (Yen) | \$15,207 | \$1,223 | \$ 848 | \$ 848 |
| Sell (U.S. dollar) | 49,894 | — | 228 | 228 |
| Sell (Euro) | 42 | — | (1) | (1) |
| Sell (Australian dollar) | 18,891 | — | 286 | 286 |
| Buy (U.S. dollar) | 256 | — | 6 | 6 |
| Currency swap contracts: | | | | |
| Pay U.S. dollar / receive Yen | 9,104 | 1,138 | (325) | (325) |
| Total | \$93,394 | \$2,361 | \$1,042 | \$1,042 |
| Interest rate swap contracts: | | | | |
| Pay fixed / receive variable | \$14,977 | \$6,241 | \$ 92 | \$ 92 |
| Total | \$14,977 | \$6,241 | \$ 92 | \$ 92 |

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, 2017 and 2016 were as follows:

| Millions of yen | | | | |
|--|----------------------------|-----------------|------------------------------------|------------|
| 2017 | | | | |
| | 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 payable, trade | ¥ 3,260 | ¥ — | ¥ 16 |
| Sell (Euro) | | 2,133 | — | 12 |
| Buy (U.S. dollar) | Accounts payable, trade | 8,509 | — | (80) |
| Buy (Euro) | | 5,368 | — | (64) |
| Accounted for by the allocation method: | | | | |
| Sell (U.S. dollar) | Accounts receivable, trade | 9 | — | * |
| Buy (U.S. dollar) | Accounts payable, trade | 320 | — | * |
| Buy (Euro) | | 18 | — | * |
| Total | | ¥19,616 | ¥ — | ¥(116) |
| Interest rate swap contracts: | | | | |
| Accounted for by the exceptional method: | | | | |
| Pay fixed / receive variable | Long-term loans payable | ¥ 4,615 | ¥1,558 | * |
| Total | | ¥ 4,615 | ¥1,558 | ¥ — |
| Interest rate and currency swap contracts: | | | | |
| Accounted for by the exceptional method and allocation method: | | | | |
| Pay fixed Yen / receive variable U.S. dollar | Long-term loans payable | ¥ 2,859 | ¥2,859 | * |
| Total | | ¥ 2,859 | ¥2,859 | ¥ — |

| 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 payable, trade | ¥ 2,673 | ¥ — | ¥ (3) |
| Sell (Euro) | | 2,233 | — | (40) |
| Buy (U.S. dollar) | Accounts payable, trade | 8,016 | — | (213) |
| Buy (Euro) | | 5,846 | — | (41) |
| Buy (NZ dollar) | Investments denominated in foreign currencies | 21,623 | — | 212 |
| Accounted for by the allocation method: | | | | |
| Sell (U.S. dollar) | Accounts receivable, trade | 49 | — | * |
| Buy (U.S. dollar) | Accounts payable, trade | 809 | — | * |
| Buy (Euro) | | 135 | — | * |
| Total | | ¥41,384 | ¥ — | ¥ (84) |
| Interest rate swap contracts: | | | | |
| Accounted for by the exceptional method: | | | | |
| Pay fixed / receive variable | Long-term loans payable | ¥ 4,627 | ¥2,713 | * |
| Total | | ¥ 4,627 | ¥2,713 | ¥ — |

| Thousands of U.S. dollars | | | | |
|--|----------------------------|-----------------|------------------------------------|------------|
| 2017 | | | | |
| | 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 payable, trade | \$ 29,105 | \$ — | \$ 145 |
| Sell (Euro) | | 19,044 | — | 109 |
| Buy (U.S. dollar) | Accounts payable, trade | 75,970 | — | (718) |
| Buy (Euro) | | 47,929 | — | (571) |
| Accounted for by the allocation method: | | | | |
| Sell (U.S. dollar) | Accounts receivable, trade | 82 | — | * |
| Buy (U.S. dollar) | Accounts payable, trade | 2,854 | — | * |
| Buy (Euro) | | 163 | — | * |
| Total | | \$175,147 | \$ — | \$(1,035) |
| Interest rate swap contracts: | | | | |
| Accounted for by the exceptional method: | | | | |
| Pay fixed / receive variable | Long-term loans payable | \$ 41,203 | \$13,910 | * |
| Total | | \$ 41,203 | \$13,910 | \$ — |
| Interest rate and currency swap contracts: | | | | |
| Accounted for by the exceptional method and allocation method: | | | | |
| Pay fixed Yen / receive variable U.S. dollar | Long-term loans payable | \$ 25,529 | \$25,529 | * |
| Total | | \$ 25,529 | \$25,529 | \$ — |

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swap contracts, are treated in combination with the hedged items; trade accounts receivable, trade accounts payable or long-term loans payable, 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.

18. 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, 2017 and 2016 were as follows (except the plans under the simplified method):

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Balance at the beginning of the year | ¥75,916 | ¥63,879 | \$677,819 |
| Service cost | 3,598 | 2,963 | 32,125 |
| Interest cost | 416 | 811 | 3,714 |
| Actuarial gain and loss | (5,036) | 10,436 | (44,966) |
| Retirement benefits paid | (1,915) | (1,830) | (17,101) |
| Prior service cost | (1) | — | (8) |
| Decrease due to transition to defined contribution pension plan | (222) | — | (1,983) |
| Decrease due to change from the principle method to the simplified method | (307) | — | (2,737) |
| Increase due to change from the simplified method to the principle method | — | 379 | — |
| Payments due to mass retirement | — | (571) | — |
| Decrease due to employment transfer | — | (112) | — |
| Other | 29 | (39) | 260 |
| Balance at the end of the year | ¥72,478 | ¥75,916 | \$647,123 |

The changes in plan assets for the years ended March 31, 2017 and 2016 were as follows (except the plans under the simplified method):

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Balance at the beginning of the year | ¥53,024 | ¥51,918 | \$473,430 |
| Expected return on plan assets | 1,485 | 1,758 | 13,256 |
| Actuarial gain and loss | (115) | (1,095) | (1,023) |
| Contributions | 2,156 | 2,168 | 19,252 |
| Retirement benefits paid | (1,665) | (1,452) | (14,867) |
| Payments due to mass retirement | — | (273) | — |
| Balance at the end of the year | ¥54,885 | ¥53,024 | \$490,048 |

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------|---------------------------|
| | 2017 | 2016 | 2017 |
| Balance at the beginning of the year | ¥ 752 | ¥ 802 | \$ 6,715 |
| Retirement benefit expense | 189 | 287 | 1,692 |
| Retirement benefits paid | (137) | (57) | (1,225) |
| Contributions | (73) | (68) | (654) |
| Increase due to change from the principle method to the simplified method | 269 | — | 2,400 |
| Decrease due to change from the simplified method to the principle method | — | (310) | — |
| Increase due to employment transfer | — | 112 | — |
| Other | (2) | (13) | (16) |
| Balance at the end of the year | ¥ 998 | ¥ 752 | \$ 8,912 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2017 | 2016 | 2017 |
| Funded retirement benefit obligation | ¥ 69,186 | ¥ 72,459 | \$ 617,730 |
| Plan assets at fair value | (55,495) | (53,565) | (495,492) |
| | 13,691 | 18,894 | 122,238 |
| Unfunded retirement benefit obligation | 4,900 | 4,749 | 43,749 |
| Net liability for retirement benefits in the balance sheet | ¥ 18,591 | ¥ 23,644 | \$ 165,987 |
| Liability for retirement benefits | ¥ 18,732 | ¥ 23,718 | \$ 167,251 |
| Asset for retirement benefits | (142) | (74) | (1,264) |
| Net liability for retirement benefits in the balance sheet | ¥ 18,591 | ¥ 23,644 | \$ 165,987 |

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Service cost | ¥ 3,598 | ¥ 2,963 | \$ 32,125 |
| Interest cost | 416 | 811 | 3,714 |
| Expected return on plan assets | (1,485) | (1,758) | (13,256) |
| Amortization of actuarial gain and loss | (4,922) | 11,774 | (43,943) |
| Amortization of prior service cost | (1) | — | (8) |
| Retirement benefit expense under the simplified method | 189 | 287 | 1,692 |
| Amortization due to change from the simplified method to the principle method | — | 69 | — |
| Other | 0 | (2) | 3 |
| Retirement benefit expense | ¥(2,203) | ¥14,144 | \$(19,673) |
| Gain on transition to defined contribution pension plan | ¥ (38) | ¥ — | \$ (337) |

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------|-----------------|--------|---------------------------|
| | 2017 | 2016 | 2017 |
| Actuarial gain and loss | ¥— | ¥(226) | \$— |
| 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, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|-----------------|-------------|------|
| Bonds | 52% | 56% |
| Stocks | 23% | 20% |
| General account | 14% | 14% |
| Other | 11% | 10% |
| 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:

| | 2017 | 2016 |
|---|---------------|---------------|
| Discount rates | 0.000%–1.044% | 0.000%–0.678% |
| Expected rates of return plan assets | 2.8% | 3.4% |
| 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 ¥1,010 million (\$9,022 thousand) and ¥863 million for the years ended March 31, 2017 and 2016, respectively.

19. 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, 2017 and 2016 were ¥513 million (\$4,583 thousand) and ¥456 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 | |
|-----------------|----------------------|-----------------|------------|---------------------------|------------|
| | Increase/ (Decrease) | Carrying amount | Fair value | Carrying amount | Fair value |
| 2016 | | 2017 | 2017 | 2017 | 2017 |
| ¥12,498 | ¥ (683) | ¥11,816 | ¥11,715 | \$105,496 | \$104,596 |

The main components of net change in carrying amount above included an increase of ¥21 million (\$191 thousand) due to acquisitions of real estate, a decrease of ¥534 million (\$4,767 thousand) due to sales of real estate and a decrease of ¥16 million (\$147 thousand) due to impairment loss for the year ended March 31, 2017.

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

20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into 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, overseas forestation 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, 2017 | Timber and Building Materials | Housing | Overseas | Subtotal | Other | Total | Adjustments | Consolidated |
| Sales and contract revenues: | | | | | | | | |
| Unaffiliated customers | ¥402,605 | ¥464,720 | ¥232,017 | ¥1,099,342 | ¥12,728 | ¥1,112,070 | ¥ 1,294 | ¥1,113,364 |
| Inter-segment transfers | 21,835 | 1,578 | 15,873 | 39,286 | 10,251 | 49,537 | (49,537) | — |
| Total | 424,440 | 466,298 | 247,890 | 1,138,628 | 22,979 | 1,161,607 | (48,243) | 1,113,364 |
| Segment income (loss) | 4,456 | 32,349 | 19,310 | 56,116 | 2,223 | 58,338 | (497) | 57,841 |
| Segment assets | 144,382 | 144,108 | 227,666 | 516,156 | 79,977 | 596,133 | 197,483 | 793,617 |
| Other items: | | | | | | | | |
| Depreciation and amortization | 906 | 5,136 | 4,370 | 10,412 | 1,630 | 12,042 | 845 | 12,887 |
| Amortization of goodwill | — | — | 2,274 | 2,274 | — | 2,274 | — | 2,274 |
| Interest income | 26 | 45 | 268 | 339 | 139 | 479 | 54 | 533 |
| Interest expense | 378 | 543 | 1,817 | 2,738 | 190 | 2,928 | (1,368) | 1,560 |
| Equity in earnings (losses) of affiliates | (1,142) | (1) | 3,657 | 2,514 | 539 | 3,053 | 0 | 3,053 |
| Investments in affiliates | 579 | 3 | 15,862 | 16,444 | 625 | 17,069 | (9) | 17,060 |
| Increase in tangible and intangible fixed assets | 947 | 4,482 | 7,261 | 12,690 | 39,455 | 52,145 | 1,983 | 54,128 |

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,294 million (\$11,552 thousand) of administration department profit.
2. Adjustments for segment income and loss include ¥ 453 million (\$4,046 thousand) of elimination of inter-segment income and loss, ¥4,981 million (\$44,475 thousand) of retirement benefits liability adjustments (gain), and ¥5,025 million (\$44,866 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥11,290 million (\$100,800 thousand) of inter-segment eliminations, ¥208,773 million (\$1,864,045 thousand) of corporate asset, which are not allocable to the reportable assets.

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 | 179,707 | 474,136 | 36,548 | 510,684 | 199,634 | 710,318 |
| 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 of administration department profit.

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

3. Adjustments for segment assets include ¥12,995 million of inter-segment eliminations, ¥212,629 million of corporate asset, which are not allocable to the reportable assets.

Thousands of U.S. dollars

| As of/Year Ended March 31, 2017 | Timber and Building Materials | Housing | Overseas | Subtotal | Other | Total | Adjustments | Consolidated |
|--|-------------------------------|-------------|-------------|-------------|-----------|--------------|-------------|--------------|
| Sales and contract revenues: | | | | | | | | |
| Unaffiliated customers | \$3,594,687 | \$4,149,284 | \$2,071,579 | \$9,815,550 | \$113,645 | \$ 9,929,195 | \$ 11,552 | \$9,940,747 |
| Inter-segment transfers | 194,958 | 14,093 | 141,721 | 350,772 | 91,523 | 442,295 | (442,295) | — |
| Total | 3,789,645 | 4,163,377 | 2,213,300 | 10,166,322 | 205,168 | 10,371,490 | (430,743) | 9,940,747 |
| Segment income (loss) | 39,790 | 288,835 | 172,410 | 501,035 | 19,844 | 520,879 | (4,438) | 516,441 |
| Segment assets | 1,289,128 | 1,286,678 | 2,032,729 | 4,608,535 | 714,083 | 5,322,618 | 1,763,245 | 7,085,863 |
| Other items: | | | | | | | | |
| Depreciation and amortization | 8,090 | 45,853 | 39,019 | 92,962 | 14,555 | 107,517 | 7,545 | 115,062 |
| Amortization of goodwill | — | — | 20,301 | 20,301 | — | 20,301 | — | 20,301 |
| Interest income | 229 | 405 | 2,397 | 3,031 | 1,243 | 4,274 | 486 | 4,760 |
| Interest expense | 3,371 | 4,849 | 16,225 | 24,445 | 1,695 | 26,140 | (12,212) | 13,928 |
| Equity in earnings (losses) of affiliates | (10,196) | (11) | 32,653 | 22,446 | 4,809 | 27,255 | 3 | 27,258 |
| Investments in affiliates | 5,171 | 25 | 141,626 | 146,822 | 5,579 | 152,401 | (82) | 152,319 |
| Increase in tangible and intangible fixed assets | 8,457 | 40,021 | 64,826 | 113,304 | 352,277 | 465,581 | 17,708 | 483,289 |

(Related information)

(1) Products and services information

Millions of yen

| Year Ended March 31, 2017 | Timber and Building Materials | Housing | Other | Total |
|---|-------------------------------|----------|---------|------------|
| Sales and contract revenues to unaffiliated customers | ¥438,995 | ¥663,630 | ¥10,739 | ¥1,113,364 |

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 |

Thousands of U.S. dollars

| Year Ended March 31, 2017 | Timber and Building Materials | Housing | Other | Total |
|---|-------------------------------|-------------|----------|-------------|
| Sales and contract revenues to unaffiliated customers | \$3,919,600 | \$5,925,263 | \$95,884 | \$9,940,747 |

(2) Geographic area information

Sales information by geographic area was as follows:

| Year Ended March 31, 2017 | Millions of yen | | | |
|---------------------------|-----------------|---------------|------------|------------|
| | Japan | North America | Other Area | Total |
| | ¥871,458 | ¥130,750 | ¥111,157 | ¥1,113,364 |

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

| Year Ended March 31, 2017 | Thousands of U.S. dollars | | | |
|---------------------------|---------------------------|---------------|------------|-------------|
| | Japan | North America | Other Area | Total |
| | \$7,780,871 | \$1,167,407 | \$992,469 | \$9,940,747 |

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

| As of March 31, 2017 | Millions of yen | | | |
|----------------------|-----------------|---------|------------|----------|
| | Japan | Oceania | Other Area | Total |
| | ¥78,195 | ¥48,846 | ¥18,757 | ¥145,798 |

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

| As of March 31, 2017 | Thousands of U.S. dollars | | | | Total |
|----------------------|---------------------------|-----------|------------|--|-------------|
| | Japan | Oceania | Other Area | | |
| | \$698,171 | \$436,125 | \$167,471 | | \$1,301,767 |

(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, 2017 | Millions of yen | | | | | Total |
|------------------------------------|-------------------------------|---------|----------|-------|------------------------------|-------|
| | Timber and Building Materials | Housing | Overseas | Other | Elimination and/or Corporate | |
| Loss on impairment of fixed assets | ¥30 | ¥— | ¥— | ¥— | ¥— | ¥30 |

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

| Year Ended March 31, 2017 | Thousands of U.S. dollars | | | | | Total |
|------------------------------------|-------------------------------|---------|----------|-------|------------------------------|-------|
| | Timber and Building Materials | Housing | Overseas | Other | Elimination and/or Corporate | |
| Loss on impairment of fixed assets | \$268 | \$— | \$— | \$— | \$— | \$268 |

(Amortization and balance of goodwill)

| As of/Year Ended March 31, 2017 | Millions of yen | | | | | Total |
|---------------------------------|-------------------------------|---------|----------|-------|------------------------------|--------|
| | Timber and Building Materials | Housing | Overseas | Other | Elimination and/or Corporate | |
| Amortization of goodwill | ¥— | ¥— | ¥ 2,274 | ¥— | ¥— | ¥2,274 |
| Balance of goodwill | — | — | 12,189 | — | — | 12,189 |

| As of/Year Ended March 31, 2016 | Millions of yen | | | | | Total |
|---------------------------------|-------------------------------|---------|----------|-------|------------------------------|--------|
| | Timber and Building Materials | Housing | Overseas | Other | Elimination and/or Corporate | |
| Amortization of goodwill | ¥— | ¥ 6 | ¥2,185 | ¥— | ¥— | ¥2,190 |
| Balance of goodwill | — | — | 6,563 | — | — | 6,563 |

| As of/Year Ended March 31, 2017 | Thousands of U.S. dollars | | | | | Total |
|---------------------------------|-------------------------------|---------|-----------|-------|------------------------------|----------|
| | Timber and Building Materials | Housing | Overseas | Other | Elimination and/or Corporate | |
| Amortization of goodwill | \$— | \$— | \$ 20,301 | \$— | \$— | \$20,301 |
| Balance of goodwill | — | — | 108,833 | — | — | 108,833 |

21. Amounts per Share

(a) Basic and diluted profit attributable to owners of parent per share
Details on the computation of net income per share and net income per share fully diluted as of March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------------|---------------------------|
| | 2017 | 2016 | 2017 |
| Profit attributable to owners of parent per share—Basic: | | | |
| Profit attributable to owners of parent | ¥ 34,532 | ¥ 9,727 | \$308,319 |
| Income not available to common stockholders | — | — | — |
| Profit attributable to owners of parent available to common stockholders | 34,532 | 9,727 | 308,319 |
| Weighted average number of shares issued | 177,129,048 | 177,130,772 | — |
| Profit attributable to owners of parent per share fully diluted—Diluted: | | | |
| Adjusted profit attributable to owners of parent | — | — | — |
| Common shares increase | 10,784,027 | 10,729,522 | — |
| (Convertible bonds with stock acquisition rights) | (10,719,837) | (10,706,638) | (—) |
| (Subscription rights to shares) | (64,190) | (22,884) | (—) |

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------------|---------------------------|
| | 2017 | 2016 | 2017 |
| Net assets per share: | | | |
| Total net assets | ¥ 295,344 | ¥ 265,257 | \$2,637,001 |
| Amounts deducted from total net assets: | 20,433 | 21,797 | 182,440 |
| (Subscription rights to shares) | (82) | (36) | (730) |
| (Non-controlling interests) | (20,352) | (21,761) | (181,710) |
| Net assets attributable to shares of common stock | 274,911 | 243,460 | 2,454,561 |
| The number of shares of common stock used for the calculation of net assets per share | 177,128,269 | 177,129,877 | — |

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2017 | 2016 | 2017 |
| Unrealized gain (loss) on available-for-sale securities: | | | |
| Amount incurred during the year | ¥13,804 | ¥(8,808) | \$123,253 |
| Reclassification adjustments for gains and losses included in net income | (87) | 129 | (779) |
| Amount before tax effect | 13,717 | (8,679) | 122,474 |
| Tax effect | (4,083) | 2,607 | (36,455) |
| Unrealized gain (loss) on available-for-sale securities | 9,634 | (6,072) | 86,019 |
| Deferred gain (loss) on hedges: | | | |
| Amount incurred during the year | (34) | 111 | (306) |
| Reclassification adjustments for gains and losses included in net income | 3 | 10 | 23 |
| Amount before tax effect | (32) | 121 | (283) |
| Tax effect | 10 | (56) | 86 |
| Deferred gain (loss) on hedges | (22) | 65 | (197) |
| Translation adjustments: | | | |
| Amount incurred during the year | 748 | (2,264) | 6,679 |
| Reclassification adjustments for gains and losses included in net income | (398) | (36) | (3,551) |
| Amount before tax effect | 350 | (2,300) | 3,128 |
| Tax effect | — | — | — |
| Translation adjustments | 350 | (2,300) | 3,128 |
| Retirement benefits liability adjustments: | | | |
| Amount incurred during the year | — | — | — |
| Reclassification adjustments for gains and losses included in net income | — | 231 | — |
| Amount before tax effect | — | 231 | — |
| Tax effect | — | (58) | — |
| Retirement benefits liability adjustments | — | 173 | — |
| Share of other comprehensive income of affiliates accounted for by the equity method: | | | |
| Amount incurred during the year | (162) | (414) | (1,450) |
| Reclassification adjustments for gains and losses included in net income | (34) | 3 | (300) |
| Share of other comprehensive income of affiliates accounted for by the equity method | (196) | (411) | (1,750) |
| Total other comprehensive income | ¥ 9,766 | ¥(8,545) | \$ 87,200 |

23. Asset Retirement Obligations

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

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the anticipated future useful lives ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the years ended March 31, 2017 and 2016 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
| | 2017 | 2016 | 2017 |
| Balance at beginning of the year | ¥1,406 | ¥1,443 | \$12,550 |
| Liability incurred for assets acquired | 116 | 69 | 1,040 |
| Accretion expense | 10 | 11 | 91 |
| Liabilities settled | (44) | (116) | (395) |
| Balance at end of the year | ¥1,488 | ¥1,406 | \$13,286 |

24. Related Party Transactions

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

| 2016 | | | Millions of yen |
|----------------|-------------------------|------------------|-----------------|
| Name | Title | Transactions | Amounts |
| Akira Ichikawa | Director of the Company | Sales of housing | ¥51 |

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.

There are no items to be disclosed for the year ended March 31, 2017.

25. Business Combination

Acquisition of shares of subsidiaries

(Finalization of provisional accounting treatment of business combination involving DRB Group)

Provisional accounting treatment had been applied to the business combination involving the DRB Group (DRB Enterprises, LLC and seven other companies) that was conducted on January 1, 2016 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2017. In conjunction with the finalization of this provisional accounting treatment, an important adjustment has been made to the initial purchase price allocation. As a result, the provisionally calculated goodwill in the amount of ¥4,593 million yen (\$41,008 thousand) decreased by ¥1,695 million (\$15,132 thousand) to ¥2,898 million (\$25,875 thousand) with the finalization of the accounting treatment, and it will be amortized by the straight-line method over four years. The decrease in goodwill is due to a ¥2,062 million (\$18,415 thousand) increase in other intangible assets, a ¥762 million (\$6,806 thousand) increase in deferred tax assets and a ¥1,130 million (\$10,088 thousand) increase in non-controlling interests.

(Acquisition of shares of Edge Homes Group)

The Company acquired shares of Edge Utah HoldCo, LLC and seventeen 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: Edge Utah HoldCo, LLC and seventeen companies

Description of business: Building and sales of homes

(2) Main reason for implementing the business combination

The Company acquired Edge Utah HoldCo, LLC and seventeen

companies to advance into a new area of the U.S. and to ensure its achievement of the annual sales target of 5,000 units in the U.S.

(3) Date of the business combination

February 9, 2017 (U.S. date)

(4) Legal form of the business combination

Acquisition of shares for a cash consideration

(5) Name of the merged entity

No change in name

(6) Ratio of voting rights acquired

70%

(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

The accompanying consolidated statement of income does not include the statement of income of the acquiree as the Company consolidated only the balance sheet of the acquiree as of March 31, 2017.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition: Cash ¥7,262 million (\$64,841 thousand)

Acquisition cost: ¥7,262 million (\$64,841 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: ¥183 million (\$1,631 thousand)

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

(1) Amount of goodwill

¥5,018 million (\$44,801 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 assets 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, the amortization period is to be determined based on the result of purchase price allocation.

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

See Note 12.

Transactions under common control**(Acquisition of additional shares of Gehan Homes Group)****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: Building and sales of homes

(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

Interests held by non-controlling shareholders were acquired to accelerate efforts to create synergies among 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 accounted for the acquisition as a transaction with non-controlling shareholders 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 ¥14,750 million (\$131,695 thousand)

Acquisition cost: ¥14,750 million (\$131,695 thousand)

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

(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 shareholders

¥8,234 million (\$73,522 thousand)

26. Stock Option Plan**1. Stock option expenses per accounts for the years ended March 31, 2017 and 2016**

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------|---------------------------|
| | 2017 | 2016 | 2017 |
| Selling, general and administrative expenses | ¥46 | ¥36 | \$410 |

2. Description of stock options

(1) Description of stock options

| | Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type) | Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type) |
|--|---|---|
| Individuals covered by the plan | Directors of the Company: 8 Executive officers of the Company: 11 Total: 19 | Directors of the Company: 8 Executive officers of the Company: 13 Total: 21 |
| Number of stock options granted by class of share (Note) | Common stock: 38,800 shares | Common stock: 41,400 shares |
| Grant date | August 20, 2015 | August 19, 2016 |
| Vesting conditions | No provisions | No provisions |
| Eligible service period | No provisions | No provisions |
| Exercise period | From August 21, 2015 to August 20, 2035 | From August 20, 2016 to August 19, 2036 |

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, 2017 | Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type) | Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type) |
|---------------------------|---|---|
| Unvested stock options | | |
| As of March 31, 2016 | — | — |
| Granted | — | 41,400 |
| Forfeited | — | — |
| Vested | — | 41,400 |
| Unvested | — | — |
| Vested stock options | | |
| As of March 31, 2016 | 38,800 | — |
| Vested | — | 41,400 |
| Exercised | — | — |
| Forfeited | — | — |
| Unexercised | 38,800 | 41,400 |

2) Unit price information

| Year Ended March 31, 2017 | Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type) | Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type) |
|------------------------------------|---|---|
| Exercise price | ¥ 1 | ¥ 1 (\$0.01) |
| Average stock price when exercised | — | — |
| Fair unit value on the grant date | ¥1,233 | ¥1,092 (\$9.75) |

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. 2016 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, 2017 | Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type) |
|---------------------------------------|---|
| Stock price volatility (Note 1) | 33.99% |
| Expected remaining period (Note 2) | 11.5 years |
| Expected dividends per share (Note 3) | ¥24 (\$0.21) |
| Risk-free rate (Note 4) | -0.045% |

Notes: 1. Stock price volatility was computed by the actual stock prices of the Company during the period from February 19, 2005 to August 19, 2016.

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.

27. Additional Information

The Company and its domestic subsidiaries adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016) effective from April 1, 2016.

28. Subsequent Events

(Acquisition of additional shares of Bloomfield Homes, L.P. and one other company)

The Company acquired additional shares of Bloomfield Homes, L.P. and one other company, which were equity-method affiliates, through its U.S. subsidiary, Sumitomo Forestry America, Inc., to make them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description

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

Description of business: Building and sales of homes

(2) Main reason for implementing the business combination

Since its acquisition of an equity interest in the acquiree in June 2013, the Company has developed a good partnership with Bloomfield Homes, L.P. and one other company and has successfully expanded the scale of its businesses. The Company has made them subsidiaries in order to deepen its involvement in their businesses, and to achieve long-term profit expansion.

(3) Date of the business combination

May 2, 2017 (U.S. date)

(4) Legal form of the business combination

Acquisition of shares for a cash consideration

(5) Name of the merged entity

No change in name

(6) Ratio of voting rights acquired

| | |
|--|-----|
| Equity interest held by the Company before acquisition | 50% |
|--|-----|

| | |
|--------------------------------|-----|
| Equity interest to be acquired | 15% |
|--------------------------------|-----|

| | |
|---|-----|
| Equity interest to be held by the Company after acquisition | 65% |
|---|-----|

(7) Main reasons for determination of the acquirer

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

2. Breakdown of consideration for acquisition of additional shares and type of consideration

| | | |
|--------------------------------|------|------------------------------------|
| Consideration for acquisition: | Cash | ¥4,095 million (\$36,500 thousand) |
|--------------------------------|------|------------------------------------|

| | | |
|-------------------|--|------------------------------------|
| Acquisition cost: | | ¥4,095 million (\$36,500 thousand) |
|-------------------|--|------------------------------------|

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

Not yet determined

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

Not yet determined

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, 2017, 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, 2017, 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 23, 2017
Tokyo, Japan

Sumitomo Forestry Group Overview

(As of July 31, 2017)

Domestic Group Overview

Environment and Resources Business

| | |
|--|---|
| 1 Japan Bio Energy Co., Ltd. | Intermediate processing of industrial waste products, and supply and sale of wood chips |
| 2 Kawasaki Biomass Electric Power Co., Ltd. | Electric power generation using wood-chip biomass, wholesale of electric power |
| 3 Okhotsk Bio Energy Co., Ltd. | Supply and sale of wood chips |
| 4 Mombetsu Biomass Electric Power Co., Ltd. | Electric power generation using wood-chip biomass, wholesale of electric power |
| 5 Michinoku Bio Energy Co., Ltd. | Supply and sale of wood chips |
| 6 Hachinohe Biomass Electric Power Co., Ltd. | Electric power generation using wood-chip biomass, wholesale of electric power |
| 7 Tomakomai Biomass Power Co., Ltd. | Electric power generation using wood-chip biomass, wholesale of electric power |

Timber and Building Materials Business

| | |
|---|--|
| 8 Sumitomo Forestry Crest Co., Ltd. | Manufacture and sale of various types of plywood, building components for housing, and adhesives, etc. |
| 9 Sumitomo Forestry Wood Products Co., Ltd. | Procurement and sale of Japanese timber, management of forest, and forestry-related businesses |
| 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 Wood Peace Co., Ltd. | Bed log shiitake mushroom cultivation and sale, production and processing of timber and interior products, printing |
| 27 Sumirin Enterprises Co., Ltd. | Various services for insurance agency, equipment leasing, office services, etc. |
| 28 Sumirin Business Service Co., Ltd. | Staffing business, training, business contracting |
| 29 Sumirin Agro-Products Co., Ltd. | Production and sale of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc. |
| 30 Kawanokita Development Co., Ltd. | Management of the Takinomiya Country Club golf course |
| 31 Fill Care Co., Ltd. | Management of private-pay elderly care facilities, etc. |
| 32 Shinko Care Life Co., Ltd. | Management of private-pay elderly care facilities, home nursing care services |

Overseas Group Overview

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 |
| 7 | Edge Homes Group Edge Utah HoldCo, LLC | Construction and sale of spec homes |

Australia

| | | |
|----|---|--|
| 8 | Sumitomo Forestry Australia Pty Ltd. | Oversight and participation in management of affiliated companies in Australia; import / export and wholesale of timber and building materials |
| 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 |
|----|----------------------|-------------------------|

Indonesia

| | | |
|----|---------------------------------|---|
| 15 | PT. Sumitomo Forestry Indonesia | Import/export and wholesale of timber and building materials |
| 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 |
|----|------------------------------------|---|

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

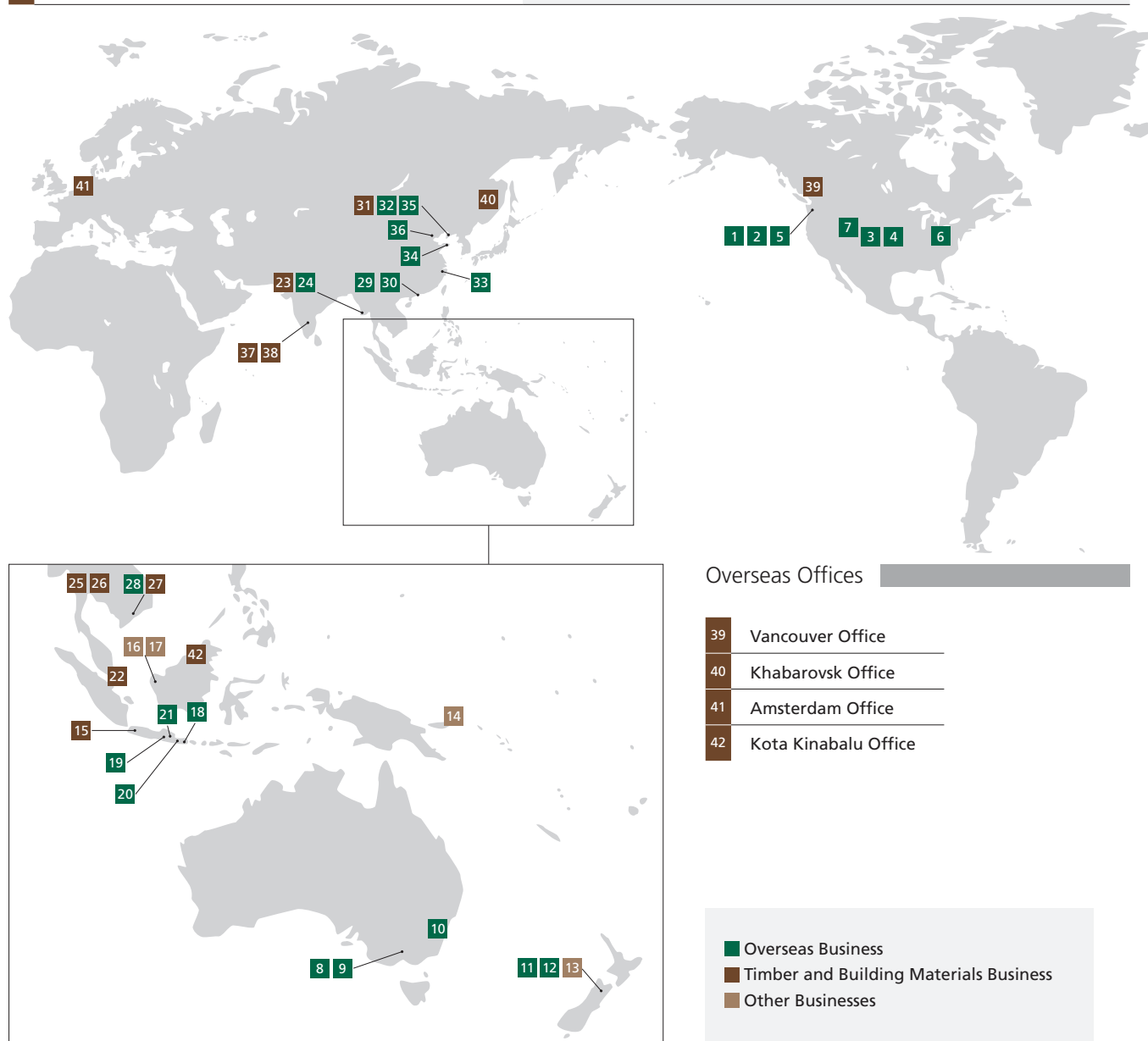
| | | |
|----|---|---|
| 29 | 住林香港有限公司 SUMIRIN HONG KONG LIMITED | Management of affiliated companies in Hong Kong |
| 30 | 怡峰控股有限公司 Rainbow Alpha Holdings Limited | Development of condominium complexes |

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 | 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 |
| 33 | 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 |
| 34 | 煙台海外金橋房屋租賃有限公司 Yantai Golden Bridge Enterprise Co., Ltd. | Brokerage of rental housing |
| 35 | 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 |
| 36 | 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 |

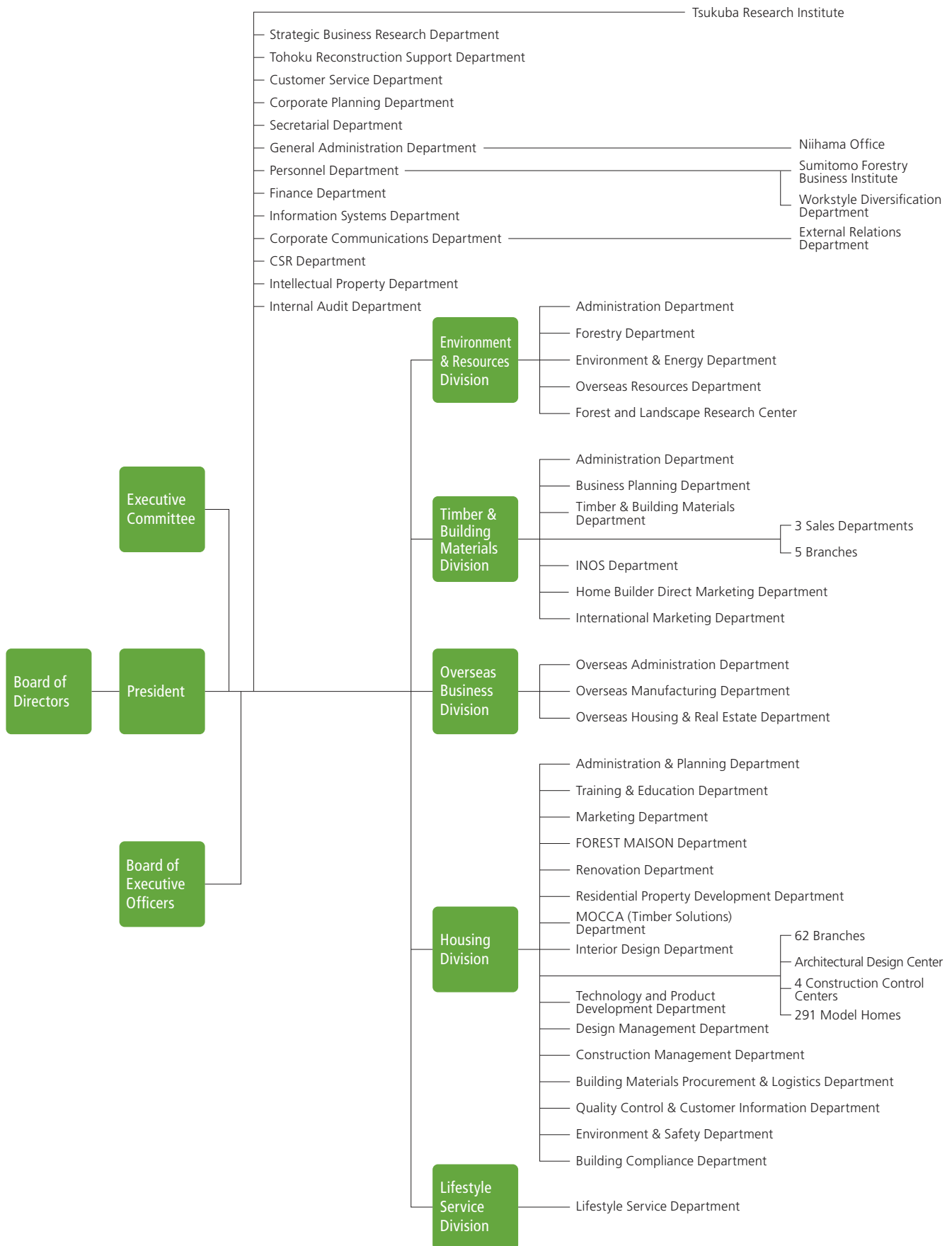
India

| | | |
|----|-----------------------------------|--|
| 37 | Sumitomo Forestry India Pvt. Ltd. | Import/export and wholesale of timber and building materials, etc. |
| 38 | Spacewood Furnishers Pvt. Ltd. | Manufacture and sale of wooden interior products |



Organization Chart

(As of April 1, 2017)



Stock Information

Company Outline (As of March 31, 2017)

| | |
|------------------------------------|--|
| 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 | 9,660 |
| Head Office | Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan |
| Consolidated Subsidiaries | 103 (Overseas 74) |
| Affiliated Companies | 29 (Overseas 25) |
| Number of Employees (Consolidated) | 17,802 |
| 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 |

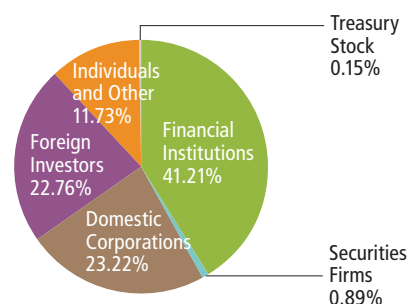
Major Shareholders (As of March 31, 2017)

| Shareholders | Number of shares held (Thousand shares) | Shareholding ratio (%) |
|--|---|------------------------|
| The Master Trust Bank of Japan, Ltd. (trust account) | 10,438 | 5.8 |
| Sumitomo Metal Mining Co., Ltd. | 10,110 | 5.7 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 7,621 | 4.3 |
| Japan Trustee Services Bank, Ltd. (trust account) | 7,401 | 4.1 |
| 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 |

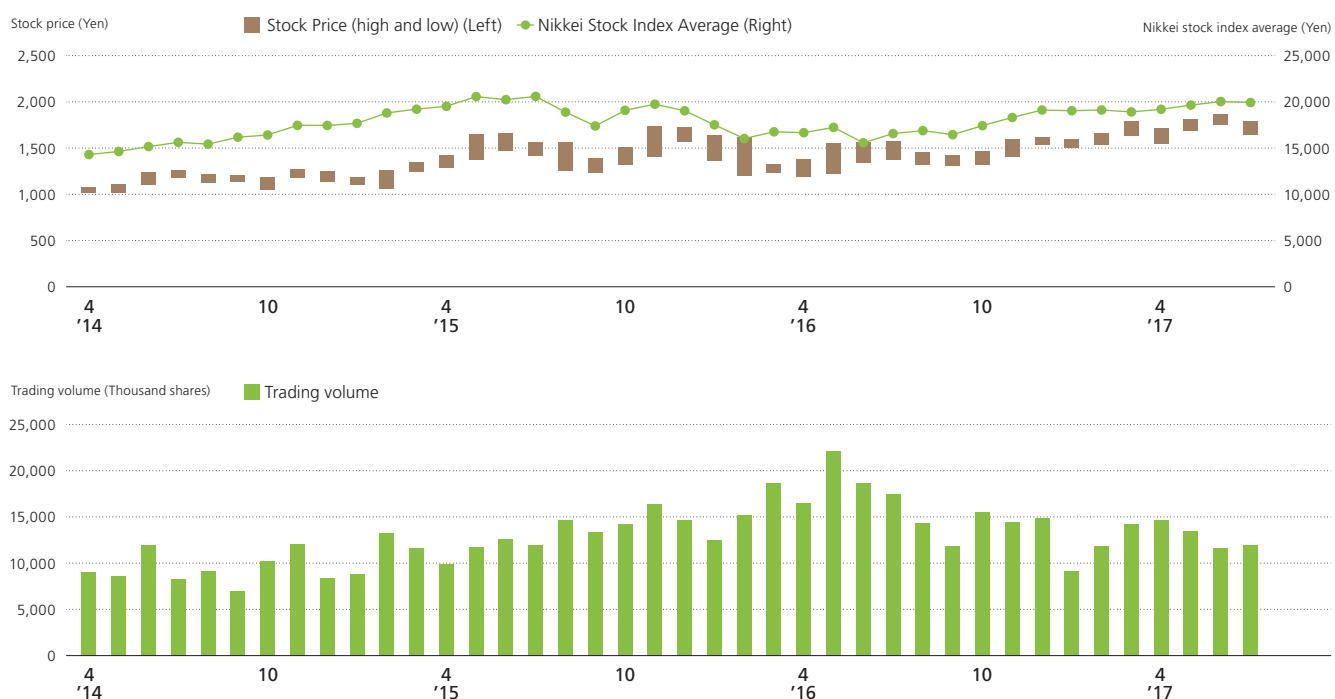
* Rounded down to the nearest thousand.

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

Breakdown of Shareholders (As of March 31, 2017)



Stock Price and Trading Volume





SUMITOMO FORESTRY CO.,LTD.

Corporate Communications Department IR Team
Keidanren Kaikan, 3-2, Otemachi 1-chome,
Chiyoda-ku, Tokyo 100-8270, Japan
Tel: 81-3-3214-2270 Fax: 81-3-3214-2272
URL: <http://sfc.jp/english/>