

May 12, 2016

## Summary of Consolidated Financial Results For the Year Ended March 2016

|  |   |
|--|---|
| Name of Company:   | Sumitomo Forestry Co., Ltd.                                 |
| Stock Code:  | 1911  |
| Stock Exchange Listing:  | Tokyo   |
| URL:   | http://sfc.jp/  |
| Representative   |   |
| Title:   | President / Representative Director                         |
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| Contact Person   |   |
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| Date of regular general meeting of shareholders:                                 | June 24, 2016   |
| Date of commencement of dividend payment (tentative):                            | June 27, 2016   |
| Date of filing of securities report:   | June 24, 2016   |
| Existence or non-existence of preparation for supplemental explanation documents | Exist   |
| Existence or non-existence of results briefing                                   | Exist (For securities analysts and institutional investors) |

(Note: Amounts are rounded to nearest million Yen.)

### 1. Financial results for the current fiscal year (April 1, 2015 - March 31, 2016)

#### (1) Result of operations (Consolidated)

(Percentage figures represent year on year changes)

|                     | Net sales   |     | Operating income |        | Recurring income |        | Profit for the year attributable to Owners of the parent |        |
|---------------------|-------------|-----|------------------|--------|------------------|--------|--|--------|
|                     | Million yen | %   | Million yen      | %      | Million yen      | %      | Million yen  | %      |
| FY ended March 2016 | 1,040,524   | 4.3 | 30,093           | (11.5) | 30,507           | (16.2) | 9,727  | (47.6) |
| FY ended March 2015 | 997,256     | 2.5 | 33,994           | 1.7    | 36,424           | 8.5    | 18,572   | (17.6) |

Note: Comprehensive income

|                     |                    |         |
|---------------------|--------------------|---------|
| FY ended March 2016 | 6,809 million yen  | (81.0%) |
| FY ended March 2015 | 35,775 million yen | 17.7%   |

|                     | Net income per share | Net income per share fully diluted | Return on equity | Ratio of recurring income to assets | Operating income Margin |
|---------------------|----------------------|------------------------------------|------------------|-------------------------------------|-------------------------|
|                     | Yen                  | Yen                                | %                | %                                   | %                       |
| FY ended March 2016 | 54.92                | 51.78                              | 4.0              | 4.4                                 | 2.9                     |
| FY ended March 2015 | 104.85               | 98.87                              | 8.0              | 5.6                                 | 3.4                     |

Note: Equity in income(losses) of affiliates

|                     |                   |
|---------------------|-------------------|
| FY ended March 2016 | 761 million yen   |
| FY ended March 2015 | 1,021 million yen |

#### (2) Financial Position (Consolidated)

|                      | Total assets | Net assets  | Equity ratio | Shareholder's Equity per Share |
|----------------------|--------------|-------------|--------------|--------------------------------|
|                      | Million yen  | Million yen | %            | Yen                            |
| As of March 31, 2016 | 709,188      | 264,127     | 34.3         | 1,374.47                       |
| As of March 31, 2015 | 665,538      | 260,782     | 36.9         | 1,387.39                       |

Note: Shareholders' equity

|                      |                     |
|----------------------|---------------------|
| FY ended March 2016: | 243,460 million yen |
| FY ended March 2015: | 245,750 million yen |

## (3) Cash flow position (Consolidated)

|                     | Net cash provided<br>by (used in)<br>operating activities | Net cash provided<br>by (used in)<br>investment activities | Net cash provided<br>by (used in)<br>financing activities | Cash and cash<br>equivalents at end<br>of period |
|---------------------|---|--|---|--|
|                     | Million yen   | Million yen  | Million yen   | Million yen                                      |
| FY ended March 2016 | 45,705  | (9,972)  | 1,813   | 141,265  |
| FY ended March 2015 | 14,709  | (23,575)   | (17,286)  | 103,296  |

## 2. Dividends

|                             | Dividend per share |           |           |           |           | Annual<br>aggregate<br>amount | Payout ratio<br>(Consolidated) | Dividends/<br>net assets<br>(Consolidated) |
|-----------------------------|--------------------|-----------|-----------|-----------|-----------|-------------------------------|--------------------------------|--|
|                             | End of 1Q          | End of 2Q | End of 3Q | End of FY | Full year |                               |                                |  |
|                             | Yen                | Yen       | Yen       | Yen       | Yen       | Million<br>yen                | %                              | %  |
| FY ended March 2015         | -                  | 9.50      | -         | 12.00     | 21.50     | 3,808                         | 20.5                           | 1.6  |
| FY ended March 2016         | -                  | 12.00     | -         | 12.00     | 24.00     | 4,251                         | 43.7                           | 1.7  |
| FY ending March 2017 (est.) | -                  | 15.00     | -         | 15.00     | 30.00     |                               | 19.7                           |  |

## 3. Forecast for the fiscal year ending March 2017(Consolidated, April 1, 2016 - March 31, 2017)

|            | Net sales   |      | Operating income |      | Recurring income |      | Profit for the year attributable<br>to Owners of the parent |       | Net income<br>per share |
|------------|-------------|------|------------------|------|------------------|------|---|-------|-------------------------|
|            | Million yen | %    | Million yen      | %    | Million yen      | %    | Million yen   | %     | Yen                     |
| First half | 529,500     | 8.9  | 13,000           | 1.0  | 14,000           | 4.0  | 7,500   | 8.9   | 42.34                   |
| Full year  | 1,150,000   | 10.5 | 46,000           | 52.9 | 48,000           | 57.3 | 27,000  | 177.6 | 152.43                  |

## \* Notice

- 1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
  - 2) Changes in accounting policies, accounting estimates, and restatements
    - (a) Changes in accounting policies due to revision of accounting standards: Yes
    - (b) Changes in accounting policies other than those in (a): None
    - (c) Changes in accounting estimates: None
    - (d) Restatements: None
- (Note) For details, please refer to accompanying materials page 21 "5. Consolidated Financial Statements (5) Notes to the Consolidated Financial Statements (Change in Accounting Policy)."

## (3) Number of shares outstanding (common stock)

## (a) Shares outstanding (including treasury stock)

|                      |             |                      |             |
|----------------------|-------------|----------------------|-------------|
| As of March 31, 2016 | 177,410,239 | As of March 31, 2015 | 177,410,239 |
|----------------------|-------------|----------------------|-------------|

## (b) Treasury stock

|                      |         |                      |         |
|----------------------|---------|----------------------|---------|
| As of March 31, 2016 | 280,362 | As of March 31, 2015 | 278,529 |
|----------------------|---------|----------------------|---------|

## (c) Average number of shares during the term

|                      |             |                      |             |
|----------------------|-------------|----------------------|-------------|
| As of March 31, 2016 | 177,130,772 | As of March 31, 2015 | 177,132,685 |
|----------------------|-------------|----------------------|-------------|

## Non-consolidated Financial Results (For reference)

Financial results for the current fiscal year (April 1, 2015 – March 31, 2016)

## (1) Result of operations (Non-consolidated) (Percentage figures represent year on year changes)

|                              | Net sales   |       | Operating income |        | Recurring income |        | Net income  |        |
|------------------------------|-------------|-------|------------------|--------|------------------|--------|-------------|--------|
|                              | Million yen | %     | Million yen      | %      | Million yen      | %      | Million yen | %      |
| Fiscal year ended March 2016 | 707,796     | (0.9) | 11,107           | (41.3) | 20,586           | (16.5) | 10,233      | (31.1) |
| Fiscal year ended March 2015 | 714,583     | (5.5) | 18,922           | (18.5) | 24,640           | (7.9)  | 14,851      | (7.7)  |

|                              | Net income per share | Net income per share fully diluted |
|------------------------------|----------------------|------------------------------------|
|                              | Yen                  | Yen                                |
| Fiscal year ended March 2016 | 57.77                | 54.47                              |
| Fiscal year ended March 2015 | 83.84                | 79.06                              |



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## 1. Analysis of the Results of Operations and Financial Conditions

### (1) Analysis of Results of Operations

#### (a) Results of Operations

In the period under review, the global economy exhibited a mild recovery overall thanks to continued recovery of the US economy despite an economic slowdown in China and other emerging countries. The Japanese economy continued its own gentle recovery as the employment situation improved and capital investments recovered despite a lack of vigor in exports.

The domestic housing market, which has a deep relationship to our Group businesses, exhibited a recovery owing to housing loan interest rates hovering at low levels and the enactment of housing acquisition promotion policies by the government such as broader tax exemptions for the gift tax. As a result, the number of new housing starts rose to 921,000 (an increase of 4.6% year-on-year). Of these, owner-occupied dwellings came to 284,000 (an increase of 2.2% year-on-year).

Under this business environment, our Group worked to improve profitability of the timber and building materials and custom-built detached housing businesses, which are our main businesses, and sought to build a balanced portfolio capable of adapting to changes in the market environment. Toward that end, we endeavored to expand our growth businesses through such efforts as aggressively investing management resources in not only the apartment, renovation and overseas businesses but also the MOCCA (timber solution) Business, which promotes the adoption of timber construction in non-residential buildings and of wood-based interior finishings, the biomass power generation business and management of senior care homes. As a result, net sales came to ¥1,040,524million (an increase of 4.3% year-on-year), surpassing the ¥1 trillion mark for the first time. On the profit side, owing in part to recording ¥11,531 million in actuarial differences for retirement benefit accounting as a lump-sum personnel expense, operating income was ¥30,093 million (a decrease of 11.5% year-on-year), recurring income was ¥30,507 million (a decrease of 16.2% year-on-year) and net income attributable to parent company shareholders was ¥9,727 million (a decrease of 47.6% year-on-year). Nevertheless, this marked the third consecutive period that we were able to secure recurring income of at least ¥30,000 million.

Additionally, the Group continues to focus on taking orders for disaster public housing to contribute to the recovery of the disaster-stricken areas of Tohoku, and this year other undertakings have been rolled out as well, such as the “Lawn of Hope Project,” in which tsunami-damaged coastal land is converted into grass-growing land.

Sumitomo Forestry was named a “Health and Productivity Stock Selection,” a title jointly conferred by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) on listed companies that are appealing to investors for our focus on employee health from a management viewpoint. We were also granted “Nadeshiko Brand” designation as a company that promotes the success of women in the workplace.

Business segment performance is described below. The net sales for each segment include intersegment internal sales and transfers.

#### 1) Timber and Building Materials Business

In the domestic timber and building materials business, we worked to maintain our status as number one in terms of timber and building material trade volume based on our sales network and credit, which we have established over our many years in business. We also worked to expand our fuel wood for biomass power generation, for which demand is expected to grow, and to expand domestic timber exports to China and other Asian markets in order to grow our businesses that are not easily affected by trends in the number of new housing starts.

In the domestic building materials manufacturing business, we worked to improve profitability through such means as focusing our efforts on sales of high value-added products.

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

As a result of the above, we posted sales of the timber and building materials business of ¥426,965 million (an increase of 0.9% year-on-year) and recurring income of ¥3,352 million (a decrease of 17.0% year-on-year).

## 2) Housing Business

In the custom-built detached housing business, we worked to give our products high added value and increase our share of the market.

As a measure to increase added value, we enhanced the technical specifications of the Big Frame construction method, which enables us to provide sturdy yet highly customizable houses with an open feel, in order to make our products even more appealing. Additionally, in order to strengthen our “Estate Design Project” undertaking, which offers sophisticated residences with excellent design sense, we established the Architectural Design Center to oversee difficult design operations and a new display center that gives shape to the Estate Design Project. With these efforts, we have established an environment that allows us to demonstrate our proposal and response capabilities to our customers.

At the same time, we shifted our personnel to metropolitan areas with growing populations and aggressively invested management resources, including updating our display centers and establishing new “Machikado Ichiban” display centers in residential areas featuring houses that will later be sold to expand our market share. We also launched our BF-Fireproof strategic urban product that combines earthquake and fire resistance technologies in four-story wooden homes to address the construction needs of narrow urban lots.

Additionally, we launched our new “konoka” product featuring the perspective and ideas of women and opened a display center to show off the concept.

In the apartment business, we established an apartment sales system at all locations of the custom-built detached houses business in order to respond to demand for asset utilization following the increase in the inheritance tax in January last year. We also launched our ForestMaison BF-Fireproof apartment/combined apartments and residential product, which satisfies the required fireproof standards of metropolitan areas.

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

In the MOCCA(timber solution ) business, we worked to expand non-residential timber constructed building and other projects that the technology and know-how cultivated in our custom-built housing business can be applied to and established a track record with elderly welfare facilities, day-care centers, guide dog training facilities and marine product processing facilities during the period under review. Additionally, in the area affected by the Great East Japan Earthquake, we accepted an order to rebuild an elementary school that was being moved to higher ground.

As a result of the above, we posted housing business net sales of ¥454,604 million yen (an increase of 0.1% year-on-year) and recurring income of ¥31,512 million (an increase of 11.3% year-on-year).

### 3) Overseas Business

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

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

As a result of the above, we posted overseas business net sales of ¥187,926 million (an increase of 27.8% year-on-year) and a recurring income of 13,091 million (an increase of 113.78% year-on-year).

### 4) Other Businesses

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

In our Indonesian forestation business, we reviewed our business plan and recorded an impairment loss.

We posted net sales of other businesses of ¥16,874million (an increase of 1.9% year-on-year) and a recurring loss of ¥1,022 million yen (the recurring income in the previous fiscal year was ¥1,175 million).

#### (b) Outlook and Promotion of Medium-Term Management Plan

The global economy is expected to continue its gradual recovery, but caution is still required due to increasing uncertainty, including the economic futures of emerging countries and geopolitical risk. In Japan, the employment situation is expected to improve, and exports are expected to recover, so a mild recovery is predicted, but the situation remains unpredictable due to factors such as poor consumer sentiment and sluggish corporate profits.

Under this business environment, Sumitomo Forestry has established the 2018 Sumitomo Forestry Group Medium-Term Management Plan. The targets will be to achieve net sales of ¥1.17 trillion, recurring income of ¥55 billion (not including actuarial differences associated with retirement benefit accounting) and ROE of at least 10% by the end of fiscal year ending March 2019, three years from now. Additionally, over the next three years, we will invest a total of around ¥150 billion, focusing on the resources, construction and lifestyle services fields, while accounting for financial soundness. We will promote a business strategy that anticipates changes in the social environment and develop various revenue streams in the domestic and global markets while also cultivating new fields in which to apply timber.

In the timber and building materials business, our aim is to improve profitability by increasing added value, cutting costs and boosting our efforts in growth markets such as fuel wood, domestic timber exports, non-residential wooden buildings and renovation. We will also work to further expand our operations in overseas markets, including expanding and strengthening our business in the Indian market, which was launched this year.

In the housing business, we will continue to invest management resources in metropolitan areas and work to expand our share of the market, including pouring efforts into updating display centers for our custom-built detached houses and promotional activities for our strategic urban products. We will also aim to improve profitability by focusing on further expanding Big Frame construction method sales and making high value-added proposals to customers, including zero-energy houses with environmentally sound equipment. In the apartment business, we will promote enhancement of our product lineup and further strengthen the proposal skills of our sales representatives to develop the business into one of our core revenue streams. In the renovation business, we will work to further expand orders received by pursuing synergy with custom-built detached houses, including holding joint consultation meetings for new builds and renovations. In the timber solution integration business, we will continue to pour effort into taking orders for timber-constructed welfare, educational and commercial facilities and work to create and expand the market for medium- to large-sized timber constructed buildings as we promote the pursuit of possibilities for adopting timber construction in non-residential buildings and of wood-based interior finishings.

In the overseas manufacturing business, we will work to improve profitability by making efforts to improve the production capacity for high value-added products and implementing measures to ensure stable plant operations and continuous cost reductions. In the overseas housing and real estate business, we aim to achieve sales structure to handle 8,000 houses a year in the United States and Australia as soon as possible by further promoting the growth of existing detached housing businesses and the expansion of the business and regions through new M&A's. Furthermore, by expanding our business domains, including the real estate development business, we will promote the achievement of a multi-faceted business portfolio to ensure stable earnings growth.

With regards to the forest management business, we will contribute to vitalization of the domestic forestation business and regional revitalization by leveraging the sustainable forestry know-how which has been cultivated up to now in our management of company-owned forests to offer forestry management consulting and expand production of seedlings for forestation which are in short supply nationwide. We will also promote environmentally-conscious forestation overseas, including our decision in December of last year to purchase of about 30,000 hectares of plantation land in New Zealand. In the environment and energy field, we will work to improve forest value and contribute to the creation of jobs and other regional revitalization by launching new wood biomass power generation operations utilizing unused left-over timber and thinnings and other materials. In the lifestyle services field, we will work to expand new service domains contributing to rich lives, including efforts to create vibrant living spaces through our elderly care services business.

In addition to the aforementioned efforts, the Sumitomo Forestry Group will anticipate social changes and fulfil our corporate social responsibility by such means as strengthening our diversity and corporate governance efforts on top of promoting environmental conservation and efforts to ensure legal compliance as we accept feedback from our stakeholders. We will also develop businesses which contribute to the creation of a sustainable society leveraging the knowledge and technology related to wood that we have cultivated in our business activities up until now.

## (2) Analysis of the Financial Position

### (a) Balance Sheet Highlights

(million yen)

|                   | Fiscal year ended March<br>2015 | Fiscal year ended March<br>2016 |
|-------------------|---------------------------------|---------------------------------|
| Total assets      | 665,538                         | 709,188                         |
| Total liabilities | 404,756                         | 445,061                         |
| Total net assets  | 260,782                         | 264,127                         |

Total assets totaled ¥709,188 million at the end of the current consolidated fiscal year, an increase of ¥43,650 million year on year. The increase was attributable mainly to an increase in liquidity and an increase in inventories



associated with expansion of the overseas housing and real estate business. Liabilities increased ¥40,304 million compared to the end of the previous consolidated fiscal year to ¥445,061 million due to such factors as an increase in long-term debt and an increase in net defined benefit liabilities arising from actuarial differences. Net assets totaled ¥264,127 million, and the equity ratio was 34.3%.

(b) Cash Flow

|   | (million yen)                   |                                 |
|---|---------------------------------|---------------------------------|
|   | Fiscal year ended March<br>2015 | Fiscal year ended March<br>2016 |
| Cash flows from operating activities                        | 14,709                          | 45,705                          |
| Cash flows from investment activities                       | (23,575)                        | (9,972)                         |
| Cash flows from financing activities                        | (17,286)                        | 1,813                           |
| Effect of exchange rate change on cash and cash equivalents | 1,105                           | 423                             |
| Net increase (decrease) in cash and cash equivalents        | (25,047)                        | 37,969                          |
| Cash and cash equivalents at the beginning of period        | 128,343                         | 103,296                         |
| Cash and cash equivalents at end of period                  | 103,296                         | 141,265                         |

There was a net increase of ¥37,969 million in cash and cash equivalents (hereinafter: “cash”) to ¥141,265 million.

A summary of cash flows is presented below.

1) Operating Activities

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

2) Investment Activities

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

3) Financing Activities

Net cash used in financing activities increased ¥1,813 million. This increase was a result of cash-increasing factors such as an increase in interest-bearing debt exceeding cash-decreasing factors such as payment of dividends.

The following table shows financial indicators associated with cash flows.

|  | FY3/12 | FY3/13 | FY3/14 | FY3/15 | FY3/16 |
|--|--------|--------|--------|--------|--------|
| Equity ratio (%)   | 33.6   | 35.1   | 33.9   | 36.9   | 34.3   |
| Equity ratio based on market value (%)                   | 26.5   | 32.7   | 28.5   | 34.9   | 32.3   |
| Ratio of interest-bearing debt against cash flow (years) | 2.5    | 1.5    | 1.7    | 7.0    | 2.6    |
| Interest coverage ratio (times)                          | 20.0   | 34.9   | 44.2   | 12.6   | 43.1   |

(Notes) Equity ratio = shareholders' equity/total assets  
Equity ratio based on market value = market value of total shares/total assets  
Ratio of interest-bearing debt against cash flow = interest-bearing debt/operating cash flow  
Interest coverage ratio = operating cash flow/interest expense

\* All calculations are on a consolidated base.

\* Market value of total shares is calculated based on the year-end closing share price × the number of shares issued, except for treasury stock.

\* Amounts used for operating cash flow and interest expense are taken from “cash flows from operating activities” and “interest expense” reported in the consolidated statements of cash flows. Interest-bearing debt consists of all debts appearing on the balance sheet that incur interest. Amounts used for interest expense are taken from “interest paid” reported in the consolidated statements of cash flows.

### (3) Policy on Profit Distribution and Dividends for FY 3/16 and FY 3/17

Sumitomo Forestry has a fundamental policy of achieving stable and continuous shareholder returns and considers this to be one of its highest priorities. In the future, we will work to improve return on equity (ROE) and increase shareholders' equity effectively utilizing internal reserves in effective investments that contribute to the improvement of long-term corporate value and in research and development activities. At the same time, we will return an appropriate level of earnings to shareholders in accordance with total earnings, while taking into account the need to balance these distributions with the base of operations, financial position, cash flow and other items.

Based on the above-mentioned basic policy, as well as comprehensive consideration of the current period operating results, the Company plans to pay a fiscal year-end dividend of ¥12.00 per share for the fiscal year that ended in March 2016. Together with the interim dividend of ¥12.00 per share that the Company has already paid, this will bring the dividend for the full year to ¥24.00 per share, an increase in the dividend of ¥2.50 compared with the fiscal year that ended in March 2015.

For the fiscal year ending in March 2017, the company plans to pay an annual dividend of ¥30.00 per share – an interim and year-end dividend of ¥15.00 each.

### (4) Business Risk

#### (a) Housing Market Trends

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

#### 1) Economic Cyclical Changes

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

#### 2) Interest Rate Fluctuations

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

### 3) Land Price Fluctuations

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

### 4) Tax System and Housing-Related Policy Changes

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

#### (b) Statutory Changes

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

#### (c) 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.

#### (d) 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.

#### (e) Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the profitability of the timber and building materials business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. For that reason, a sudden change in the price of timber and building materials and fluctuations in the market for direct/indirect materials other than timber and building materials such as oil could negatively impact the Group's operating results and financial position.

#### (f) Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange forward contracts and other means. However, temporary exchange rate fluctuations greater than those expected may occur. Also, 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. For that reason, sudden fluctuations in exchange rates could negatively impact the Group's operating results and financial position.

(g) Product Quality Assurance

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

(h) 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.

(i) 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.

(j) 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.

(k) Natural Disasters

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

(l) 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 employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

(m) 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.

(n) Decline in the Value of Assets under Management

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

(o) Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables etc., and is engaged in thorough credit management such as establishing appropriate credit limits to avoid exposure to credit risk, but there is still a possibility that such risk may manifest itself. Additionally, we have established reserves based on certain estimates to prepare for credit risk contingencies, but there is a possibility that the actual loss may exceed this amount. As such, our credit management efforts are not a guarantee that such risk can be completely avoided. Credit risk could still potentially influence the Group's operating results and financial position.

(p) Litigation Risk

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

(q) 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.

\* 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.

## 2. Corporate Group

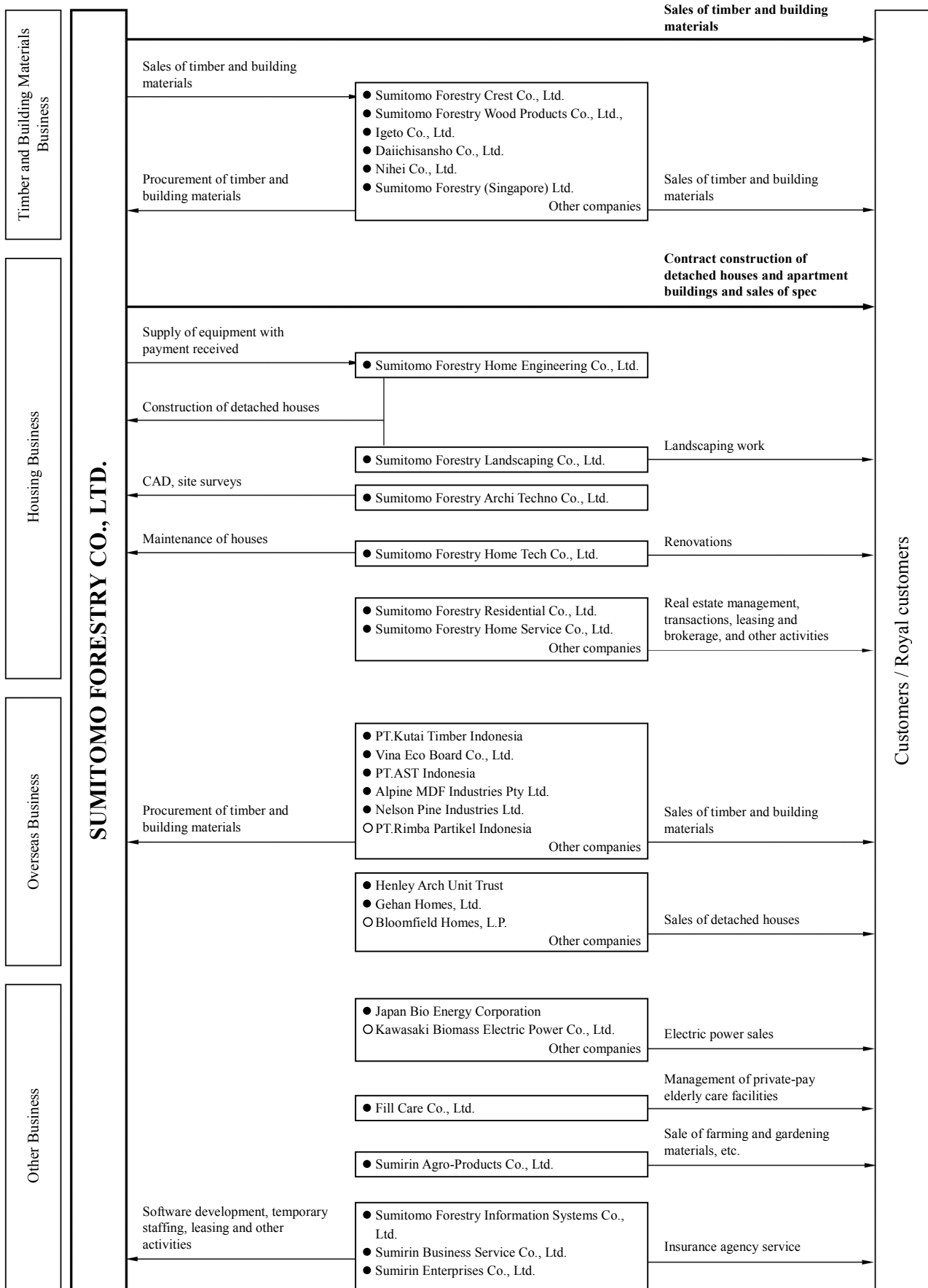
The Sumitomo Forestry Group (Sumitomo Forestry and its related companies) consists of Sumitomo Forestry, 84 consolidated subsidiaries and 26 equity-method affiliates. These companies are engaged primarily in the afforestation business, which includes the procurement, manufacture, processing and sale of timber and building materials, the construction and renovation of detached houses and apartment buildings, the sale of spec homes, real estate management and brokerage, and other business activities associated with these, both domestically and abroad.

The following table shows business activities and the positioning of these businesses within the group.

The following four business sectors are the same as the business segments used for financial reporting.

|  |                         |  |
|--|-------------------------|--|
| Timber and Building Materials Business | Business description    | Procurement, manufacture, processing and sale of timber (logs, chips, lumber, laminated lumber, etc.) and building materials (plywood, fiberboard, processed wooden building materials, ceramic building materials, metal building materials, housing equipment, etc.)   |
|  | Major related companies | Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Wood Products Co., Ltd., Igeto Co., Ltd., Daiichisansho Co., Ltd., Nihei Co., Ltd., Sumitomo Forestry (Singapore) Ltd.  |
| Housing Business                       | Business description    | Construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, sale of interior goods, leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site Housing Business surveys, etc.   |
|  | Major related companies | Sumitomo Forestry Residential Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Archi Techno Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd.  |
| Overseas Business                      | Business description    | Manufacture and sale of timber and building materials overseas, construction and sale of detached houses, etc., sale of forest lumber, etc.  |
|  | Major related companies | PT. Kutai Timber Indonesia, Vina Eco Board Co., Ltd., PT.AST Indonesia, Alpine MDF Industries Pty Ltd., Henley Group (Henley Arch Unit Trust and eight other companies), Nelson Pine Industries Ltd., Gehan Homes Group (Gehan Homes, Ltd. and eight other companies), PT. Rimba Partikel Indonesia, Bloomfield Homes Group (Bloomfield Homes, L.P. and two other companies) |
| Other Businesses                       | Business description    | Biomass power generation business, management of private-pay elderly care facilities, leasing, insurance agency business, manufacture and sale of farming and gardening materials, information systems development, temporary staffing services, etc.  |
|  | Major related companies | Sumitomo Forestry Information Systems Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumirin Business Service Co., Ltd., Sumirin Enterprises Co., Ltd., Fill Care Co., Ltd., Japan Bio Energy Corporation, Kawasaki Biomass Electric Power Co., Ltd.  |

The diagram below presents the information in the table above in a flow chart format.



● Consolidated subsidiaries  
○ Equity-method affiliates

### 3. Management Policy

#### (1) Fundamental Management Policy

The corporate philosophy of the Sumitomo Forestry Group is “to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services.” The fundamental management policy is to use this philosophy to achieve the goal of maximizing corporate value.

To accomplish this goal, the Group prioritizes the improvement of operating efficiency and profitability in its business operations. Operations are guided by four action guidelines: adherence to the “Sumitomo Spirit,” which places emphasis on fairness and trust and on conducting business activities that are beneficial to society; a dedication to “Respect for Humanity” by promoting diversity and an open and energetic corporate culture; extensive activities concerning “Environmental Responsibility” to help create a sustainable society; and “Putting Customers First” in order to achieve complete customer satisfaction by supplying products and services of outstanding quality.

Another goal is improving the quality of management through a voluntary disclosure program aimed at increasing management transparency.

#### (2) Targeted Performance Indicators

Sales and recurring income are positioned as performance indicators that show the growth of the entire Sumitomo Forestry Group. In addition, emphasis is placed on return on equity (ROE) and the return on capital employed (ROCE) as an indicator of operating efficiency.

#### (3) Medium and Long-term Strategies and Important Issues

The goal of the Sumitomo Forestry Group is to be an organization that “conducts a comprehensive portfolio of housing related businesses that utilize wood”. There are two main businesses: custom-built detached housing and timber and building materials. There are also other businesses that the Group plans to focus on building into strong businesses that can contribute to earnings. In particular, the Group will use the technical capabilities it has cultivated in the custom-built detached housing business to concentrate on the “stock business,” where it is engaged in the reform of the Group’s construction properties and general properties, and on the “overseas business,” in which the Group manufactures and sells wood construction materials, and builds and sells detached houses and other buildings in other countries where the markets are expected to grow.

By rapidly developing these activities into core businesses and promoting a business strategy that anticipates social change, we will develop diverse revenue streams in the Japanese and global markets. These priority growth businesses will also enable the Group to contribute to the creation of a prosperous society by supplying housing-related services. The Group is determined to continue making steady progress developing its technical expertise and human resources to fulfill these medium and long-term goals.

The Sumitomo Forestry Group has been growing forests and trees ever since its foundation about 320 years ago, and has continually maintained a harmonious relationship with the natural environment. The Group’s corporate culture is defined by its dedication to sustainability. With this dedication, the Group is a leader among Japanese companies in the preservation of biodiversity. The objective is to conduct high-quality business activities that are in harmony with the environment and society.

Setting the medium and long-term goals described above will ensure the Group works steadily towards achieving its management strategy.



#### **4. Basic Thinking on Selection of Accounting Standards**

The Sumitomo Forestry Group applies Japanese standards when preparing consolidated financial statements. Our policy on the application of international accounting standards is to address the matter appropriately based on circumstances in Japan and other countries where we do business.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(million yen)

|   | As of March 31, 2015 | As of March 31, 2016 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets  |                      |                      |
| Cash and time deposits                                    | 81,756               | 83,499               |
| Notes and accounts receivable-trade                       | 118,156              | 121,415              |
| Accounts receivable from completed construction contracts | 6,059                | 5,723                |
| Marketable securities                                     | 26,000               | 34,000               |
| Finished goods, logs and lumber                           | 18,351               | 17,388               |
| Work in process   | 1,299                | 1,390                |
| Raw materials and supplies                                | 6,909                | 7,328                |
| Costs on uncompleted construction contracts               | 22,863               | 23,906               |
| Developed land and housing for sale                       | 39,232               | 43,239               |
| Real estate for sale in process                           | 37,063               | 56,371               |
| Deferred tax assets                                       | 7,590                | 7,377                |
| Short-term loans receivable                               | 32,571               | 31,709               |
| Accounts receivable-other                                 | 44,619               | 46,963               |
| Other   | 8,752                | 12,004               |
| Allowance for doubtful accounts                           | (998)                | (842)                |
| Total current assets                                      | 450,220              | 491,469              |
| Noncurrent assets   |                      |                      |
| Property, plant and equipment                             |                      |                      |
| Buildings and structures                                  | 62,856               | 62,685               |
| Accumulated depreciation                                  | (30,968)             | (30,621)             |
| Buildings and structures, net                             | 31,888               | 32,064               |
| Machinery, equipment and vehicles                         | 78,696               | 70,991               |
| Accumulated depreciation                                  | (57,492)             | (51,548)             |
| Machinery, equipment and vehicles, net                    | 21,204               | 19,443               |
| Land  | 27,007               | 26,817               |
| Leased assets   | 10,299               | 9,632                |
| Accumulated depreciation                                  | (4,815)              | (5,439)              |
| Leased assets, net  | 5,484                | 4,193                |
| Construction in progress                                  | 8,628                | 13,572               |
| Other   | 22,730               | 20,656               |
| Accumulated depreciation                                  | (7,895)              | (8,045)              |
| Other, net  | 14,835               | 12,611               |
| Total property, plant and equipment                       | 109,046              | 108,700              |
| Intangible assets   |                      |                      |
| Goodwill  | 5,981                | 8,258                |
| Other   | 10,306               | 9,820                |
| Total Intangible assets                                   | 16,286               | 18,078               |
| Investments and other assets                              |                      |                      |
| Investment securities                                     | 75,322               | 74,875               |
| Long-term loans receivable                                | 3,051                | 3,481                |
| Net defined benefit assets                                | 303                  | 74                   |
| Deferred tax assets                                       | 2,196                | 2,573                |
| Other   | 11,567               | 12,042               |
| Allowance for doubtful accounts                           | (2,452)              | (2,104)              |
| Total investments and other assets                        | 89,986               | 90,942               |
| Total noncurrent assets                                   | 215,318              | 217,719              |
| <b>Total assets</b>                                       | <b>665,538</b>       | <b>709,188</b>       |

(million yen)

|   | As of March31, 2015 | As of March31, 2016 |
|---|---------------------|---------------------|
| <b>Liabilities</b>                                      |                     |                     |
| Current liabilities                                     |                     |                     |
| Notes and accounts payable-trade                        | 102,951             | 107,651             |
| Accounts payable for construction contracts             | 64,612              | 68,793              |
| Short-term debt   | 31,340              | 27,586              |
| Current portion of bonds                                | –                   | 5,000               |
| Lease obligations                                       | 2,146               | 1,691               |
| Income taxes payable                                    | 4,617               | 7,572               |
| Advances received on uncompleted construction contracts | 46,791              | 48,627              |
| Provision for Employees' bonuses                        | 9,866               | 10,873              |
| Provision for directors' bonuses                        | 135                 | 130                 |
| Provision for warranties for completed construction     | 2,275               | 2,770               |
| Asset retirement obligation                             | 467                 | 478                 |
| Other   | 26,910              | 32,081              |
| Total current liabilities                               | 292,110             | 313,254             |
| Long-term liabilities                                   |                     |                     |
| Bond issued   | 5,000               | –                   |
| Convertible bonds                                       | 20,000              | 20,000              |
| Long-term debt  | 41,214              | 62,115              |
| Lease obligations                                       | 3,669               | 2,676               |
| Deferred tax liabilities                                | 12,244              | 5,022               |
| Provision for directors' retirement benefits            | 75                  | 82                  |
| Net defined benefit liability                           | 13,066              | 23,718              |
| Asset retirement obligation                             | 975                 | 927                 |
| Other   | 16,403              | 17,267              |
| Total long-term liabilities                             | 112,646             | 131,807             |
| <b>Total liabilities</b>                                | <b>404,756</b>      | <b>445,061</b>      |
| <b>Net assets</b>                                       |                     |                     |
| Shareholders' equity                                    |                     |                     |
| Common stock  | 27,672              | 27,672              |
| Capital surplus   | 26,872              | 26,872              |
| Retained earnings                                       | 161,286             | 166,762             |
| Treasury stock  | (275)               | (278)               |
| Total shareholders' equity                              | 215,555             | 221,028             |
| Accumulated other comprehensive income                  |                     |                     |
| Valuation difference on available-for-sale securities   | 22,342              | 16,270              |
| Deferred gains or losses on hedges                      | (124)               | (58)                |
| Foreign currency translation adjustment                 | 8,101               | 6,497               |
| Remeasurements of defined benefit plans                 | (124)               | (276)               |
| Total accumulated other comprehensive income            | 30,195              | 22,432              |
| Subscription rights to shares                           | –                   | 36                  |
| Non-controlling interests                               | 15,032              | 20,631              |
| <b>Total net assets</b>                                 | <b>260,782</b>      | <b>264,127</b>      |
| <b>Total liabilities and net assets</b>                 | <b>665,538</b>      | <b>709,188</b>      |

## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

## (Consolidated Statements of Income)

(million yen)

|  | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|--|-------------------------------------|-------------------------------------|
| Net sales  | 997,256                             | 1,040,524                           |
| Cost of sales  | 827,764                             | 857,390                             |
| Gross profit   | 169,492                             | 183,134                             |
| Selling, general and administrative expenses           | 135,498                             | 153,041                             |
| Operating income                                       | 33,994                              | 30,093                              |
| Non-operating income                                   |                                     |                                     |
| Interest income  | 415                                 | 474                                 |
| Purchase discounts                                     | 369                                 | 361                                 |
| Dividends income                                       | 1,209                               | 1,350                               |
| Equity in earnings of affiliates                       | 1,021                               | 761                                 |
| Foreign exchange gains                                 | 301                                 | —                                   |
| Other  | 1,690                               | 2,142                               |
| Total non-operating income                             | 5,005                               | 5,088                               |
| Non-operating expenses                                 |                                     |                                     |
| Interest expenses                                      | 1,136                               | 1,236                               |
| Sales discounts  | 732                                 | 693                                 |
| Foreign exchange losses                                | —                                   | 1,473                               |
| Other  | 707                                 | 1,272                               |
| Total non-operating expenses                           | 2,575                               | 4,674                               |
| Recurring income                                       | 36,424                              | 30,507                              |
| Extraordinary gains                                    |                                     |                                     |
| Gain on sales of noncurrent assets                     | 293                                 | 559                                 |
| Gain on sales of investment securities                 | 128                                 | 33                                  |
| Subsidy income   | —                                   | 705                                 |
| Gain on abolishment of retirement benefit plan         | —                                   | 144                                 |
| Gain on negative goodwill                              | 70                                  | —                                   |
| Other  | 40                                  | —                                   |
| Total extraordinary gains                              | 531                                 | 1,441                               |
| Extraordinary loss                                     |                                     |                                     |
| Loss on sales of noncurrent assets                     | 15                                  | 51                                  |
| Loss on retirement of noncurrent assets                | 177                                 | 182                                 |
| Impairment loss  | 1,112                               | 4,692                               |
| Loss on sales of investment securities                 | 3                                   | —                                   |
| Loss on devaluation of investment securities           | 0                                   | —                                   |
| Loss on reduction of noncurrent assets                 | —                                   | 705                                 |
| Special retirement expenses                            | 536                                 | 71                                  |
| Loss on sales of stocks of subsidiaries and affiliates | —                                   | 3                                   |
| Loss on step acquisitions                              | 338                                 | —                                   |
| Other  | 35                                  | —                                   |
| Total extraordinary loss                               | 2,217                               | 5,704                               |
| Income before income taxes and minority interests      | 34,738                              | 26,243                              |
| Income taxes-current                                   | 11,914                              | 15,808                              |
| Income taxes-deferred                                  | 841                                 | (4,919)                             |
| Total income taxes                                     | 12,756                              | 10,889                              |
| Net income   | 21,982                              | 15,354                              |
| Net income attributable to non-controlling interests   | 3,410                               | 5,627                               |
| Net income attributable to owners of parent            | 18,572                              | 9,727                               |

## (Consolidated Statements of Comprehensive Income)

(million yen)

|  | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|--|-------------------------------------|-------------------------------------|
| Net income   | 21,982                              | 15,354                              |
| Other comprehensive income                                     |                                     |                                     |
| Valuation difference on available-for-sale securities          | 7,771                               | (6,072)                             |
| Deferred gains or losses on hedges                             | (144)                               | 65                                  |
| Foreign currency translation adjustment                        | 4,936                               | (2,300)                             |
| Remeasurements of defined benefit plan                         | (63)                                | 173                                 |
| Share in equity method affiliates                              | 1,293                               | (411)                               |
| Total other comprehensive income (loss)                        | 13,793                              | (8,545)                             |
| Comprehensive income   | 35,775                              | 6,809                               |
| Comprehensive income attributable to owners of the parent      | 31,016                              | 1,964                               |
| Comprehensive income attributable to non-controlling interests | 4,759                               | 4,845                               |

## (3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2015

(million yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period   | 27,672               | 26,872          | 146,654           | (272)          | 200,925                    |
| Cumulative effect of changes in accounting policies                                  |                      |                 | (574)             |                | (574)                      |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672               | 26,872          | 146,080           | (272)          | 200,351                    |
| Changes during the period  |                      |                 |                   |                |                            |
| Dividends from surplus   |                      |                 | (3,366)           |                | (3,366)                    |
| Net income attributable to owners of parent  |                      |                 | 18,572            |                | 18,572                     |
| Purchase of treasury stock   |                      |                 |                   | (3)            | (3)                        |
| Disposal of treasury stock   |                      | 0               |                   | 0              | 0                          |
| Changes to range of application of equity method                                     |                      |                 | (0)               |                | (0)                        |
| Net changes in items other than shareholders' equity                                 |                      |                 |                   |                |                            |
| Total changes during the period  | –                    | 0               | 15,206            | (2)            | 15,204                     |
| Balance at the end of current period   | 27,672               | 26,872          | 161,286           | (275)          | 215,555                    |

|  | Accumulated other comprehensive income                |                                    |   |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at the beginning of current period   | 14,559  | 21                                 | 3,284                                   | (112)                                   | 17,751                                       | –                             | 7,401                     | 226,078          |
| Cumulative effect of changes in accounting policies                                  |   |                                    |   |   |  |                               |                           | (574)            |
| Balance at the beginning of current period reflecting changes in accounting policies | 14,559  | 21                                 | 3,284                                   | (112)                                   | 17,751                                       | –                             | 7,401                     | 225,503          |
| Changes during the period  |   |                                    |   |   |  |                               |                           |                  |
| Dividends from surplus   |   |                                    |   |   |  |                               |                           | (3,366)          |
| Net income attributable to owners of parent  |   |                                    |   |   |  |                               |                           | 18,572           |
| Purchase of treasury stock   |   |                                    |   |   |  |                               |                           | (3)              |
| Disposal of treasury stock   |   |                                    |   |   |  |                               |                           | 0                |
| Changes to range of application of equity method                                     |   |                                    |   |   |  |                               |                           | (0)              |
| Net changes in items other than shareholders' equity                                 | 7,783   | (144)                              | 4,817                                   | (11)                                    | 12,444                                       | –                             | 7,630                     | 20,075           |
| Total changes during the period  | 7,783   | (144)                              | 4,817                                   | (11)                                    | 12,444                                       | –                             | 7,630                     | 35,279           |
| Balance at the end of current period   | 22,342  | (124)                              | 8,101                                   | (124)                                   | 30,195                                       | –                             | 15,032                    | 260,782          |

## Fiscal year ended March 31, 2016

(million yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period   | 27,672               | 26,872          | 161,286           | (275)          | 215,555                    |
| Cumulative effect of changes in accounting policies                                  |                      |                 |                   |                | –                          |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672               | 26,872          | 161,286           | (275)          | 215,555                    |
| Changes during the period  |                      |                 |                   |                |                            |
| Dividends from surplus   |                      |                 | (4,251)           |                | (4,251)                    |
| Net income attributable to owners of parent  |                      |                 | 9,727             |                | 9,727                      |
| Purchase of treasury stock   |                      |                 |                   | (3)            | (3)                        |
| Disposal of treasury stock   |                      |                 |                   |                | –                          |
| Changes to range of application of equity method                                     |                      |                 |                   |                | –                          |
| Net changes in items other than shareholders' equity                                 |                      |                 |                   |                |                            |
| Total changes during the period  | –                    | –               | 5,476             | (3)            | 5,473                      |
| Balance at the end of current period   | 27,672               | 26,872          | 166,762           | (278)          | 221,028                    |

|  | Accumulated other comprehensive income                |                                    |   |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at the beginning of current period   | 22,342  | (124)                              | 8,101                                   | (124)                                   | 30,195                                       | –                             | 15,032                    | 260,782          |
| Cumulative effect of changes in accounting policies                                  |   |                                    |   |   |  |                               |                           | –                |
| Balance at the beginning of current period reflecting changes in accounting policies | 22,342  | (124)                              | 8,101                                   | (124)                                   | 30,195                                       | –                             | 15,032                    | 260,782          |
| Changes during the period  |   |                                    |   |   |  |                               |                           |                  |
| Dividends from surplus   |   |                                    |   |   |  |                               |                           | (4,251)          |
| Net income attributable to owners of parent  |   |                                    |   |   |  |                               |                           | 9,727            |
| Purchase of treasury stock   |   |                                    |   |   |  |                               |                           | (3)              |
| Disposal of treasury stock   |   |                                    |   |   |  |                               |                           | –                |
| Changes to range of application of equity method                                     |   |                                    |   |   |  |                               |                           | –                |
| Net changes in items other than shareholders' equity                                 | (6,072)   | 65                                 | (1,604)                                 | (153)                                   | (7,763)                                      | 36                            | 5,600                     | (2,128)          |
| Total changes during the period  | (6,072)   | 65                                 | (1,604)                                 | (153)                                   | (7,763)                                      | 36                            | 5,600                     | 3,345            |
| Balance at the end of current period   | 16,270  | (58)                               | 6,497                                   | (276)                                   | 22,432                                       | 36                            | 20,631                    | 264,127          |

## (4) Consolidated Statements of Cash Flows

(million yen)

|  | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities   |                                     |                                     |
| Income before income taxes and minority interests                                | 34,738                              | 26,243                              |
| Depreciation and amortization  | 11,453                              | 11,753                              |
| Impairment loss  | 1,112                               | 4,692                               |
| Amortization of goodwill   | 1,957                               | 2,190                               |
| Provision for (reversal of) doubtful accounts                                    | 499                                 | (492)                               |
| Provision for (reversal of) employees' bonuses                                   | (617)                               | 1,009                               |
| Provision for (reversal of) directors' bonuses                                   | 15                                  | (5)                                 |
| Provision for (reversal of) warranties for completed construction                | 132                                 | 103                                 |
| Provision for (reversal of) directors' retirement benefits                       | 11                                  | 6                                   |
| Provision for (reversal of) retirement benefits, less payments                   | 469                                 | 10,887                              |
| Interest and dividends income  | (1,624)                             | (1,824)                             |
| Interest expenses  | 1,136                               | 1,236                               |
| Equity in (earnings) losses of affiliates  | (1,021)                             | (761)                               |
| Losses (gains) on sales of marketable securities and investment securities       | (124)                               | (33)                                |
| Losses (gains) on devaluation of marketable securities and investment securities | 0                                   | -                                   |
| Losses (gains) on step acquisitions  | 338                                 | -                                   |
| Losses (gains) on sales/disposal of fixed assets                                 | (101)                               | (326)                               |
| Decrease (increase) in notes and accounts receivable-trade                       | 9,153                               | (3,045)                             |
| Inventories  | (7,257)                             | (13,249)                            |
| Other current assets   | 9,391                               | (3,739)                             |
| Notes and accounts payable, trade  | (23,159)                            | 10,258                              |
| Advances received  | 712                                 | 68                                  |
| Advances received on uncompleted construction contracts                          | (8,329)                             | 1,836                               |
| Accrued consumption taxes  | (651)                               | 4,585                               |
| Other current liabilities  | 137                                 | 740                                 |
| Other  | 659                                 | 3,745                               |
| Subtotal   | 29,031                              | 55,877                              |
| Interest and dividends income received   | 2,205                               | 3,776                               |
| Interest paid  | (1,172)                             | (1,061)                             |
| Income taxes paid  | (15,355)                            | (12,888)                            |
| Net cash provided by (used in) operating activities                              | 14,709                              | 45,705                              |



(million yen)

|   | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from investment activities   |                                     |                                     |
| Payments into time deposits   | (45,110)                            | (30,237)                            |
| Proceeds from withdrawal of time deposits   | 35,411                              | 58,436                              |
| Decrease (increase) in short-term loans receivable  | 3,126                               | (1,667)                             |
| Proceeds from sales of marketable securities  | –                                   | 115                                 |
| Payments for purchases of fixed assets  | (12,075)                            | (19,526)                            |
| Proceeds from sales of fixed assets   | 4,783                               | 3,291                               |
| Payments for purchases of intangible assets   | (2,480)                             | (1,997)                             |
| Payments for purchase of investment securities  | (997)                               | (9,632)                             |
| Proceeds from sales of investment securities  | 3,295                               | 75                                  |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation            | (7,353)                             | (7,867)                             |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | –                                   | 8                                   |
| Payments of long-term loans payable   | (2,728)                             | (803)                               |
| Repayments of long-term loans receivable  | 596                                 | 20                                  |
| Other payments  | (876)                               | (1,569)                             |
| Other proceeds  | 832                                 | 1,381                               |
| Net cash used in investment activities  | (23,575)                            | (9,972)                             |
| Net cash provided by (used in) financing activities   |                                     |                                     |
| Net increase (decrease) in short-term debt  | (2,352)                             | 5,893                               |
| Repayments of finance lease obligations   | (2,198)                             | (2,532)                             |
| Proceeds from long-term debt  | 8,244                               | 13,076                              |
| Repayment of long-term debt   | (6,854)                             | (8,326)                             |
| Repayment of bonds  | (10,000)                            | –                                   |
| Proceeds from stock issuance to non-controlling interests                                   | 277                                 | 1                                   |
| Cash dividends paid   | (3,366)                             | (4,251)                             |
| Cash dividends paid to non-controlling interests  | (1,035)                             | (2,044)                             |
| Other proceeds  | 0                                   | –                                   |
| Other payments  | (3)                                 | (3)                                 |
| Net cash provided by (used in) financing activities   | (17,286)                            | 1,813                               |
| Effect of exchange rate change on cash and cash equivalents                                 | 1,105                               | 423                                 |
| Net increase (decrease) in cash and cash equivalents  | (25,047)                            | 37,969                              |
| Cash and cash equivalents at the beginning of period  | 128,343                             | 103,296                             |
| Cash and cash equivalents at the end of period  | 103,296                             | 141,265                             |

## (5) Notes to the Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Basis of Presenting the Consolidated Financial Statements)

## 1 Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 84 subsidiaries.

Names of major consolidated subsidiaries are omitted because they are listed in “2. Corporate Group.”

Beginning the consolidated fiscal year under review, the DRB Group (DRB Enterprises, LLC and seven other companies), in which a stake was newly acquired, the newly established Sumirin Wood Piece Co., Ltd., the MainVue Homes Group (MainVue Homes LLC and two other companies) and Sumitomo Forestry India Pvt. Ltd. are included in the scope of consolidation.

Conversely, all shares of Shouei Furniture Co., Ltd., which was a consolidated subsidiary the previous consolidated fiscal year, have been sold, so it has been removed from the scope of consolidation.

## 2 Application of Equity Method

(1) The consolidated financial statements include 26 affiliates that are accounted for by the equity method, including PT. Rimba Partikel Indonesia and Bloomfield Homes, L.P.

Beginning the consolidated fiscal year under review, Beijing BBMG Decoration Engineering Co., Ltd., in which a stake was newly acquired, Spacewood Furnishers Pvt. Ltd., of which shares were newly acquired, newly established Annadale Development Partners Unit Trust, Annadale Development Partners Pty Ltd. and DNS Asia Investment Pte. Ltd. are included as equity-method affiliates.

(2) For equity-method affiliates that have a fiscal year end that differs from the Company’s fiscal year end, financial statements for these different fiscal years are used.

## 3 Fiscal Year End of Consolidated Subsidiaries

The settlement date for 53 overseas consolidated subsidiaries and one domestic consolidated subsidiary is December 31, so when preparing the consolidated financial statements for the consolidated fiscal year under review, the financial statements as of December 31, 2015 were used. Additionally, the settlement date for two consolidated subsidiaries is March 20, so the financial statements as of March 20, 2016 have been used for them. Finally, the settlement date for one overseas consolidated subsidiary and 27 domestic consolidated subsidiaries is March 31, and the financial statements as of March 31, 2016 have been used for them.

## 4 Significant Accounting Policies

(1) Valuation of Significant Assets

(i) Securities

|                             |                       |   |
|-----------------------------|-----------------------|---|
| Held-to-maturity securities | ...                   | Amortized cost method (straight-line method)  |
| Other securities            | With market value ... | Value method based on the market price on the closing date (unrealized gains and losses are reported in the shareholders’ equity section. Sales cost of securities is determined by the moving-average method.) |

Without market value ... Cost method based on the moving-average method

- (ii) Derivatives
    - Market value method
  - (iii) Inventories
    - Purchased products, manufactured products, work in process, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Housing projects in progress, developed land and housing for sale and land, and real estate for sale in process are stated at cost, determined by the specific cost method. Net book value of inventories as shown in the consolidated balance sheet is written down when profitability declines.
- (2) Depreciation and Amortization Method for Principal Depreciable Assets
- (i) Property, plant and equipment (excluding lease assets)
    - For Sumitomo Forestry and domestic consolidated subsidiaries, the fixed-percentage method is used primarily (except for buildings acquired on or after April 1, 1998 [excluding accessory equipment], for which the straight-line method is used). For overseas consolidated subsidiaries, the straight-line method is used primarily.
  - (ii) Intangible assets (excluding lease assets)
    - The straight-line method is used. The straight-line method is used for the amortization of software used internally based on the estimated internal use period (5 years).
  - (iii) Leased assets
    - Finance leases that do not transfer ownership of the leased assets are depreciated down to a residual value of zero over their useful lives using the straight-line method.
- (3) Significant Allowances
- (i) Allowance for doubtful accounts
    - In order to prepare for expected losses from bad debts, estimated unrecoverable amounts are recorded for general claims based on historical bad-debt ratios, and for specific claims including doubtful accounts, based on individual recoverability.
  - (ii) Provision for Employees' bonuses
    - Estimated bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to employees.
  - (iii) Provision for directors' bonuses
    - Bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to directors
  - (iv) Provision for warranties for completed construction
    - A warranty reserve is recorded to prepare for repair costs that may be required for completed construction. The reserve is based on historical costs and future estimates.
  - (v) Provision for directors' retirement benefits
    - To prepare for the payment of directors' retirement benefits, accrued retirement benefits to directors of certain subsidiaries are recorded based on the amount required at year end in accordance with established internal regulations.
- (4) Method of Accounting for Retirement Benefit Obligations
- (i) Service period attribution method for projected retirement benefits
    - The method of attributing projected retirement benefits to the period up to fiscal year ended March 2016 when calculating retirement benefit obligations is as per the benefit formula standard.
  - (ii) Method of accounting for actuarial differences and past service liabilities
    - Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(5) Completed Contracts and Cost of Completed Contracts

At the end of the fiscal year that ended in March 2016, construction revenue is recognized by the percentage-of-completion method if the outcome of a construction contract could be estimated reliably (percentage of completion is estimated as a percentage of the estimated total cost, based on the cost incurred). The completed contract method is used for other short-term construction contracts.

(6) Accounting for Hedges

(i) Hedge accounting method

Deferral hedge accounting is used.

Appropriation accounting foreign currency transactions is applied to foreign exchange hedging transactions. Special accounting treatment is used for interest rate swaps when they satisfy the requirements for special treatment.

(ii) Hedging policy

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 foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged in accordance with policies laid out in the management regulations.

(iv) Assessment of hedge effectiveness

The Company believes foreign exchange forward contracts and foreign currency swaps to be highly effective hedging instruments. Therefore, an evaluation of their effectiveness is omitted. An evaluation of the effectiveness of the special accounting treatment used for interest rate swaps is omitted.

(7) Amortization of Goodwill

Goodwill is amortized by the straight-line method over a period of up to 20 years. However, if its materiality is low, the goodwill is amortized in the year in which it is recognized.

(8) Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

The scope of cash (cash and cash equivalents) on the consolidated statements of cash flows is cash on hand, deposits readily convertible to cash and short-term investments that mature within three months and bear little risk of price fluctuation.

(9) Other Significant Accounting Policies

Consumption Tax

National and regional consumption taxes are accounted for using the net-of-tax method.

## (Changes in Accounting Policies)

## (Application of Accounting Standard for Business Combination)

“Accounting Standard for Business Combination” (ASBJ Statement No. 21, September 13, 2013; the “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013; the “Consolidation Accounting Standard”), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013; the “Business Divestitures Accounting Standard”) and other standards have been applied from the consolidate fiscal year under review, effecting changes in the accounting method to record the difference associated with the changes in equity in subsidiaries remaining under the control of the Company as capital surplus, and to record acquisition-related costs as expenses for the consolidated fiscal year in which such costs are incurred. In addition, regarding business combinations conducted after the beginning of the consolidated fiscal year under review, revisions to the purchase price allocation following determination of provisional accounting methods are now reflected in the consolidated financial statements for the consolidated fiscal year in which the business combination occurred. Moreover, the net income and other statements have been changed accordingly, and minority interests has been changed to non-controlling interests. To reflect these changes, the Company has revised the consolidated financial statements for the previous consolidated fiscal year.

The application of the Business Combinations Accounting Standard and other standards follows the transitional treatment set forth in paragraph 58-2 (4) of the Business Combinations Accounting Standard, paragraph 44-5 (4) of the Consolidation Accounting Standard, and paragraph 57-4 (4) of the Business Divestitures Accounting Standard. The Company is applying these standards from the beginning of the consolidated fiscal year under review on.

This does not impact the consolidated fiscal statements.

## (Consolidated Balance Sheets)

## Guarantee obligation

|                      | As of March 31, 2015 | As of March 31, 2016 |
|----------------------|----------------------|----------------------|
| Guarantee obligation | 31,526 million yen   | 28,418 million yen   |

## (Consolidated Statements of Income)

## Impairment loss

In the current fiscal year under review, the Company posted impairment losses in the following asset groups:

## Previous consolidated fiscal year (April 1, 2014 - March 31, 2015)

| Application                                       | Location   | Type                              | Impairment loss<br>(million yen) |
|---|--|-----------------------------------|----------------------------------|
| Timber and building materials manufacturing plant | Tobishima Village, Amagun, Aichi Prefecture<br>Imari City, Saga Prefecture | Buildings and structures          | 852                              |
|   |  | Machinery, equipment and vehicles | 126                              |
|   |  | Land                              | 114                              |
|   |  | Other                             | 3                                |
|   |  | Total                             | 1,095                            |
| Idle assets                                       | Ashigara Shimo-gun, Kanagawa Prefecture                                    | Land                              | 17                               |

In order to monitor earnings on a continuous basis, the Group determines asset groupings based on the units used for management accounting. Rental and idle assets are grouped according to individual property.

The decision was made to close the timber and building materials manufacturing plant in conjunction with consolidation of production bases, so the book value was reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss under extraordinary loss. Recoverable amounts are calculated based on net sales prices. Land is calculated based on real property appraisals, and non-land assets are calculated as zero as future use and sale is not expected.

As for idle assets, the book values of the assets are reduced to their recoverable amounts with the conclusion of sales contracts, and the amount of reduction is recognized as an extraordinary impairment loss. The net sales prices from the sales contracts are used as the recoverable amounts.

Current fiscal year (April 1, 2015 - March 31, 2016)

| Application                 | Location   | Type                              | Impairment loss<br>(million yen) |
|-----------------------------|--|-----------------------------------|----------------------------------|
| Two rental condominiums     | Osaka, Osaka Prefecture                          | Buildings and structures          | 405                              |
|                             |  | Land                              | 718                              |
|                             |  | Total                             | 1,123                            |
| Forestation business assets | Kokopo,<br>East New Britain,<br>Papua New Guinea | Buildings and structures          | 662                              |
|                             |  | Machinery, equipment and vehicles | 414                              |
|                             |  | Land                              | 4                                |
|                             |  | Forest trees                      | 2,002                            |
|                             |  | Other                             | 427                              |
|                             |  | Total                             | 3,509                            |
| Idle assets                 | Komatsushima, Tokushima Prefecture               | Land                              | 32                               |
| Idle assets                 | Saijo, Ehime Prefecture                          | Land                              | 28                               |

In order to monitor earnings on a continuous basis, the Group determines asset groupings based on the units used for management accounting. Rental and idle assets are grouped according to individual property.

For the rental condominiums, considering market value and future profitability, we expect that it will be difficult to recover the investment amount, so the book value has been reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss under extraordinary loss. The recoverable amount is based on the net realizable value and use value. Net realizable value is calculated based on the valuation amount, and the use value is calculated by discounting future cash flow by 8.0%.

For forestation business assets, in the Papua New Guinea forestation business, reviewing the business plan, we expect that it will be difficult to recover the investment amount, so the book value has been reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss under extraordinary loss. The recoverable amount is based on the use value and is calculated by discounting future cash flow by 16.6%.

For the idle assets, the book values of the assets are reduced to their recoverable amounts, and the amount of reduction is recognized as an extraordinary impairment loss. The recoverable amount is a reasonable estimate based on the sales agreement and published prices of nearby land.

## (Statements of Changes in Consolidated Shareholders' Equity)

Previous Fiscal Year (April 1, 2014 – March 31, 2015)

## 1. Type and Number of Shares Outstanding and Treasury Stock

|                               | Number of shares at the beginning of the current fiscal year (shares) | Increase during the current fiscal year (shares) | Decrease during the current fiscal year (shares) | Number of shares at the end of the current fiscal year (shares) |
|-------------------------------|---|--|--|---|
| Shares issued and outstanding |   |  |  |   |
| Common shares                 | 177,410,239   | –  | –  | 177,410,239   |
| Total                         | 177,410,239   | –  | –  | 177,410,239   |
| Treasury stock                |   |  |  |   |
| Common shares (Note)1, 2      | 276,468   | 2,156  | 95   | 278,529   |
| Total                         | 276,468   | 2,156  | 95   | 278,529   |

- (Notes) 1. Increase due to purchase of odd-lot shares: 2,156  
2. Decrease due to sale of odd-lot shares: 95

## 2. Dividends

## (1) Cash Dividends

| Resolution  | Type of shares | Aggregate amount of dividend (million yen) | Dividend per share (yen) | Record date        | Effective date   |
|---|----------------|--|--------------------------|--------------------|------------------|
| Regular general meeting of Shareholders (June 20, 2014) | Common shares  | 1,683                                      | 9.50                     | March 31, 2014     | June 23, 2014    |
| Board meeting (November 6, 2014)                        | Common shares  | 1,683                                      | 9.50                     | September 30, 2014 | December 5, 2014 |

## (2) Of the Dividends whose Record Date Falls during the Fiscal Year under Review, those Dividends whose Effective Date Falls after the Said Fiscal Year End

| Resolution  | Type of shares | Aggregate amount of dividend (million yen) | Dividend resource | Dividend per share (yen) | Record date    | Effective date |
|---|----------------|--|-------------------|--------------------------|----------------|----------------|
| Regular general meeting of shareholders (June 23, 2015) | Common shares  | 2,126                                      | Retained earnings | 12.00                    | March 31, 2015 | June 24, 2015  |

## Current Fiscal Year (April 1, 2015 – March 31, 2016)

## 1. Type and Number of Shares Outstanding and Treasury Stock

|                               | Number of shares at the beginning of the current fiscal year (shares) | Increase during the current fiscal year (shares) | Decrease during the current fiscal year (shares) | Number of shares at the end of the current fiscal year (shares) |
|-------------------------------|---|--|--|---|
| Shares issued and outstanding |   |  |  |   |
| Common shares                 | 177,410,239   | –  | –  | 177,410,239   |
| Total                         | 177,410,239   | –  | –  | 177,410,239   |
| Treasury stock                |   |  |  |   |
| Common shares (Note)          | 278,529   | 1,833  | –  | 280,362   |
| Total                         | 278,529   | 1,833  | –  | 280,362   |

(Note) Increase due to purchase of odd-lot shares: 1,833

## 2. Matters Pertaining to Subscription Rights and Treasury Stock Subscription Rights

| Classification     | Breakdown of subscription rights to shares                             | Class of stock subject to share options | Number of shares subject to subscription rights to shares |          |          |  | Balance at end of consolidated fiscal year under review (million yen) |
|--------------------|--|---|---|----------|----------|--|---|
|                    |  |   | Beginning of consolidated fiscal year under review        | Increase | Decrease | End of consolidated fiscal year under review |   |
| Submitting company | FY2015 subscription rights to shares (compensation type stock options) | –                                       | –   | –        | –        | –  | 36  |
| Total              |  | –                                       | –   | –        | –        | –  | 36  |

(Note) The execution period has not yet come for FY2015 subscription rights to shares (compensation type stock options).

## 3. Dividends

## (1) Cash Dividends

| Resolution  | Type of shares | Aggregate amount of dividend (million yen) | Dividend per share (yen) | Record date        | Effective date   |
|---|----------------|--|--------------------------|--------------------|------------------|
| Regular general meeting of shareholders (June 23, 2015) | Common shares  | 2,126                                      | 12.00                    | March 31, 2015     | June 24, 2015    |
| Board meeting (November 5, 2015)                        | Common shares  | 2,126                                      | 12.00                    | September 30, 2015 | December 4, 2015 |

## (2) Of the Dividends whose Record Date Falls during the Fiscal Year under Review, those Dividends whose Effective Date Falls after the Said Fiscal Year End

| Resolution  | Type of shares | Aggregate amount of dividend (million yen) | Dividend resource | Dividend per share (yen) | Record date    | Effective date |
|---|----------------|--|-------------------|--------------------------|----------------|----------------|
| Regular general meeting of shareholders (June 24, 2016) | Common shares  | 2,126                                      | Retained earnings | 12.00                    | March 31, 2016 | June 27, 2016  |



## (Statements of Cash Flows)

## 1. Reconciliation of balance sheet items to cash and cash equivalents in the consolidated statements of cash flows.

|   | Fiscal year ended March 31, 2015 |             | Fiscal year ended March 31, 2016 |             |
|---|----------------------------------|-------------|----------------------------------|-------------|
| Cash and deposits   | 81,756                           | million yen | 83,499                           | million yen |
| Deposits with a term of over 3 months   | (34,453)                         |             | (6,233)                          |             |
| Certificates of deposit issued by domestic companies included in marketable securities        | 26,000                           |             | 34,000                           |             |
| Cash equivalents included in the short-term loans receivable account (re-purchase agreements) | 29,993                           |             | 29,999                           |             |
| Cash and cash equivalents at end of period  | 103,296                          |             | 141,265                          |             |

## 2. Breakdown of main assets and liabilities of company made a consolidated subsidiary due to purchase of shares in the previous consolidated fiscal year

The breakdown of assets and liabilities at the time of consolidation in conjunction with the acquisition of equity shares along with the relationship between the equity acquisition price and the expenditures (net amount) related to the acquisition are presented below.

## Gehan Homes Group (Gehan Homes, Ltd. and six other companies)

|                                      |         |             |
|--------------------------------------|---------|-------------|
| Current assets                       | 19,640  | million yen |
| Noncurrent assets                    | 2,108   |             |
| Goodwill                             | 4,080   |             |
| Current liabilities                  | (9,609) |             |
| Long-term liabilities                | (4,732) |             |
| Non-controlling interests            | (3,629) |             |
| Acquisition price of equity interest | 7,858   |             |
| Cash and cash equivalents            | (712)   |             |
| Deduction: acquisition expenditures  | 7,146   |             |

## Cascadia Resort Communities LLC

|   |       |             |
|---|-------|-------------|
| Current assets                          | 558   | million yen |
| Noncurrent assets                       | –     |             |
| Goodwill                                | 4     |             |
| Current liabilities                     | (341) |             |
| Long-term liabilities                   | –     |             |
| Foreign currency translation adjustment | 69    |             |
| Loss on step acquisitions               | 338   |             |
| Equity method value until acquisition   | (483) |             |
| Acquisition price of equity interest    | 145   |             |
| Cash and cash equivalents               | –     |             |
| Deduction: acquisition expenditures     | 145   |             |

3. Breakdown of main assets and liabilities of company made a consolidated subsidiary due to purchase of shares in the current consolidated fiscal year

The breakdown of assets and liabilities at the time of consolidation in conjunction with the acquisition of equity shares along with the relationship between the equity acquisition price and the expenditures (net amount) related to the acquisition are presented below.

DRB Group (DRB Enterprises, LLC and seven other companies)

|                                      |                    |
|--------------------------------------|--------------------|
| Current assets                       | 17,421 million yen |
| Noncurrent assets                    | 320                |
| Goodwill                             | 4,593              |
| Current liabilities                  | (2,071)            |
| Long-term liabilities                | (8,677)            |
| Non-controlling interests            | (2,798)            |
| Acquisition price of equity interest | 8,789              |
| Cash and cash equivalents            | (922)              |
| Deduction: acquisition expenditures  | 7,867              |

(Segment Information)

[Segment Information]

1. Outline of Reporting Segments

Reporting segments are discrete constituent units of the Company for which financial statements are separately prepared. In order to determine the allocation of the Company's management resources and evaluate its business results, the Board of Directors regularly discusses the reporting segments.

The Company has established divisions in its Headquarters to handle its products, services and regions. Each division formulates comprehensive strategies for the products and services that it handles and uses these strategies to conduct its business activities.

Therefore, the Company consists of different product, service and region-oriented segments which are based around divisions. There are 3 reporting segments: the timber and building materials business, the housing business, and the overseas business.

The "Timber and building materials business" is engaged in the purchase, manufacture, processing and sale etc. of timber and building materials. The "Housing business" is engaged in the construction, maintenance and renovation of detached houses and apartment buildings, the sale of spec homes, the sale of interior goods, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc. The "Overseas business" is engaged in the manufacture and sale of timber and building materials overseas, construction and sale of detached houses, etc., in overseas markets.

2. Method Used for Calculating Sales, Income (loss), Assets and other Items by Each Reporting Segment

The accounting treatment used for all reporting segments is basically the same as that stated in "Basis of Presenting the Consolidated Financial Statements," except for the treatment used to account for retirement benefit cost.

Actuarial differences for retirement benefit cost are not treated as a lump-sum expense.

Segment income figures are based on recurring income.

Intersegment transactions are priced in accordance with prevailing market prices.

## 3. Information regarding Sales, Income (loss), Assets and Other Items by Each Reporting Segment

Previous consolidated fiscal year (April 1, 2014 - March 31, 2015)

(million yen)

|  | Reporting segment                               |                     |                      |           | Other<br>(Note) 1 | Total     | Adjustment<br>(Note) 2 | Total shown<br>in the<br>consolidated<br>financial<br>statement<br>(Note) 3 |
|--|---|---------------------|----------------------|-----------|-------------------|-----------|------------------------|---|
|  | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Total     |                   |           |                        |   |
| Net sales  |   |                     |                      |           |                   |           |                        |   |
| (1) Unaffiliated customers   | 401,631   | 453,352             | 133,919              | 988,903   | 7,298             | 996,201   | 1,056                  | 997,256   |
| (2) Intersegment sales/transfers   | 21,389  | 588                 | 13,105               | 35,082    | 9,267             | 44,349    | (44,349)               | –   |
| Total  | 423,020   | 453,940             | 147,024              | 1,023,985 | 16,565            | 1,040,549 | (43,293)               | 997,256   |
| Segment income (loss)  | 4,039   | 28,302              | 6,126                | 38,467    | 1,175             | 39,643    | (3,219)                | 36,424  |
| Segment assets   | 147,990   | 141,197             | 149,854              | 439,042   | 27,494            | 466,536   | 199,002                | 665,538   |
| Other  |   |                     |                      |           |                   |           |                        |   |
| Depreciation and amortization<br>(Note) 4                                      | 730   | 4,530               | 4,203                | 9,463     | 1,158             | 10,622    | 832                    | 11,453  |
| Amortization of goodwill   | –   | 8                   | 1,950                | 1,957     | –                 | 1,957     | –                      | 1,957   |
| Interest income  | 33  | 51                  | 168                  | 252       | 1                 | 252       | 163                    | 415   |
| Interest expenses  | 526   | 551                 | 1,188                | 2,265     | 123               | 2,388     | (1,252)                | 1,136   |
| Equity in earnings (losses) of<br>affiliates                                   | (179)   | 0                   | 1,112                | 933       | 88                | 1,021     | 0                      | 1,021   |
| Investments in equity method<br>affiliates                                     | 1,240   | 6                   | 8,834                | 10,079    | 565               | 10,644    | (10)                   | 10,634  |
| Increase in property, plant and<br>equipment and intangible assets<br>(Note) 4 | 974   | 4,855               | 3,912                | 9,741     | 4,125             | 13,866    | 1,522                  | 15,388  |

- (Notes)
- “Other” is business segments not included in the reporting segments. Such segments include the biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business.
  - Adjustments are as presented below.
    - Adjusted sales to unaffiliated customers of ¥1,056 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
    - The adjusted business loss of ¥3,219 million includes ¥162 million in eliminated intersegment transactions, ¥257 million in retirement benefit costs and ¥2,800 million in corporate losses which are not allocated to any of the reporting segments. Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income or non-operating expenses not belonging to any reporting segments.
    - The adjusted segment assets of ¥199,002 million include ¥10,073 million in eliminated intersegment transactions and ¥209,075 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
  - Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
  - The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

## Current Consolidated Fiscal Year (April 1, 2015 – March 31, 2016)

(million yen)

|  | Reporting segment                               |                     |                      |           | Other<br>(Note) 1 | Total     | Adjustment<br>(Note) 2 | Total shown<br>in the<br>consolidated<br>Financial<br>statement<br>(Note) 3 |
|--|---|---------------------|----------------------|-----------|-------------------|-----------|------------------------|---|
|  | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Total     |                   |           |                        |   |
| Net sales  |   |                     |                      |           |                   |           |                        |   |
| (1) Unaffiliated customers   | 405,165   | 454,096             | 172,716              | 1,031,977 | 7,313             | 1,039,290 | 1,235                  | 1,040,524   |
| (2) Intersegment sales/transfers   | 21,800  | 508                 | 15,210               | 37,518    | 9,561             | 47,079    | (47,079)               | –   |
| Total  | 426,965   | 454,604             | 187,926              | 1,069,494 | 16,874            | 1,086,369 | (45,844)               | 1,040,524   |
| Segment income (loss)  | 3,352   | 31,512              | 13,091               | 47,955    | (1,022)           | 46,933    | (16,427)               | 30,507  |
| Segment assets   | 151,057   | 143,372             | 178,577              | 473,006   | 36,548            | 509,554   | 199,634                | 709,188   |
| Other  |   |                     |                      |           |                   |           |                        |   |
| Depreciation and amortization<br>(Note) 4                                      | 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 expenses  | 450   | 586                 | 1,336                | 2,372     | 185               | 2,557     | (1,320)                | 1,236   |
| Equity in earnings (losses) of<br>affiliates                                   | (752)   | (1)                 | 2,762                | 2,009     | (1,249)           | 761       | 0                      | 761   |
| Investments in equity method<br>affiliates                                     | 1,843   | 4                   | 12,949               | 14,797    | 643               | 15,440    | (9)                    | 15,431  |
| Increase in property, plant and<br>equipment and intangible assets<br>(Note) 4 | 1,158   | 6,251               | 4,969                | 12,379    | 7,348             | 19,727    | 721                    | 20,448  |

- (Notes) 1. “Other” is business segments not included in the reporting segments. Such segments include biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business.
2. Adjustments are as presented below.
- (1) Adjusted sales to unaffiliated customers of ¥1,235 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
- (2) The adjusted business loss of ¥16,427 million includes ¥354 million in eliminated intersegment transactions, ¥11,774 million in retirement benefit costs and ¥4,299 million in corporate losses which are not allocated to any of the reporting segments. Corporate losses are primarily selling, general and administrative expenses, and non-operating income and non-operating expenses not belonging to any reporting segments.
- (3) The adjusted segment assets of ¥199,634 million include ¥12,995 million in eliminated intersegment transactions and ¥212,629 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
3. Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
4. The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

## [Related Information]

Previous Consolidated Fiscal Year (April 1, 2014 - March 31, 2015)

## 1. Information by Product and Service

(million yen)

|                                     | Timber and Building Materials | Housing and Housing-related | Other | Total   |
|-------------------------------------|-------------------------------|-----------------------------|-------|---------|
| Net sales to unaffiliated customers | 438,722                       | 552,991                     | 5,544 | 997,256 |

## 2. Information by Regions

## (1) Net Sales

(million yen)

| Japan   | Other area | Total   |
|---------|------------|---------|
| 861,552 | 135,705    | 997,256 |

(Note) Net sales are categorized based on customer location.

## (2) Property, plant and equipment

(million yen)

| Japan  | Oceania | Asia   | Other area | Total   |
|--------|---------|--------|------------|---------|
| 64,382 | 26,963  | 14,438 | 3,262      | 109,046 |

## 3. Information by Major Customer

Those sales to unaffiliated customers which are special customers are not shown as none of these sales accounts for more than 10% of consolidated net sales.

Current Consolidated Fiscal Year (April 1, 2015 - March 31, 2016)

## 1. Information by Product and Service

(million yen)

|                                 | Timber and Building Materials | Housing and Housing-related | Other | Total     |
|---------------------------------|-------------------------------|-----------------------------|-------|-----------|
| Sales to unaffiliated customers | 444,946                       | 590,105                     | 5,473 | 1,040,524 |

## 2. Information by Regions

## (1) Net Sales

(million yen)

| Japan   | Other area | Total     |
|---------|------------|-----------|
| 856,716 | 183,809    | 1,040,524 |

(Note) Net sales are categorized based on customer location.

## (2) Property, plant and equipment

(million yen)

| Japan  | Oceania | Asia   | Other area | Total   |
|--------|---------|--------|------------|---------|
| 69,451 | 21,215  | 13,494 | 4,540      | 108,700 |

## 3. Information by Major Customer

Those sales to unaffiliated customers which are special customers are not shown as none of these sales accounts for more than 10% consolidated net sales.

## [Impairment Loss of Fixed Assets by Reporting Segment]

Previous consolidated fiscal year (April 1, 2014 - March 31, 2015)

(million yen)

|                 | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Other | Corporate/<br>Elimination | Total |
|-----------------|---|---------------------|----------------------|-------|---------------------------|-------|
| Impairment loss | 1,095   | 17                  | –                    | –     | –                         | 1,112 |

Impairment loss is an extraordinary loss, so it is not included in segment profits.

Current Consolidated Fiscal Year (April 1, 2015 - March 31, 2016)

(million yen)

|                 | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Other | Corporate/<br>Elimination | Total |
|-----------------|---|---------------------|----------------------|-------|---------------------------|-------|
| Impairment loss | 60  | 1,123               | –                    | 3,509 | –                         | 4,692 |

Impairment loss is an extraordinary loss, so it is not included in segment profits.

## [Amortization and the Unamortized Balance of Goodwill by Reporting Segment]

Previous consolidated fiscal year (April 1, 2014 - March 31, 2015)

(million yen)

|                     | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Other | Corporate/<br>Elimination | Total |
|---------------------|---|---------------------|----------------------|-------|---------------------------|-------|
| Amortization        | –   | 8                   | 1,950                | –     | –                         | 1,957 |
| Unamortized balance | –   | 6                   | 5,975                | –     | –                         | 5,981 |

Current Consolidated Fiscal Year (April 1, 2015 - March 31, 2016)

(million yen)

|                     | Timber and<br>Building<br>Materials<br>Business | Housing<br>Business | Overseas<br>Business | Other | Corporate/<br>Elimination | Total |
|---------------------|---|---------------------|----------------------|-------|---------------------------|-------|
| Amortization        | –   | 6                   | 2,185                | –     | –                         | 2,190 |
| Unamortized balance | –   | –                   | 8,258                | –     | –                         | 8,258 |

## [Gain on Negative Goodwill by Reporting Segment]

Previous consolidated fiscal year (April 1, 2014 - March 31, 2015)

In the timber and building materials business, PAN ASIA PACKING LTD. was made a consolidated subsidiary. Consequently, negative goodwill of ¥70 million was posted in the previous consolidated fiscal year.

Gain on negative goodwill is an extraordinary gain, so it is not included in segment profits.

Current Consolidated Fiscal Year (April 1, 2015 - March 31, 2016)

Not applicable

## (Per-Share Information)

|                                | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|--------------------------------|-------------------------------------|-------------------------------------|
| Net assets per share           | ¥1,387.39                           | ¥1,374.47                           |
| Net income per share           | ¥104.85                             | ¥54.92                              |
| Net income per share (diluted) | ¥98.87                              | ¥51.78                              |

(Notes) 1. The basis for calculating net asset per share is as follows.

|  | Fiscal year ended March 31,<br>2015<br>(As of March 31, 2015) | Fiscal year ended March 31,<br>2016<br>(As of March 31, 2016) |
|--|---|---|
| Total net assets (million yen)   | 260,782   | 264,127   |
| Breakdown of deductions from total net (million yen)                         | 15,032  | 20,667  |
| Subscription rights to shares (million yen)                                  | (-)   | (36)  |
| Non-controlling interests (million yen)                                      | (15,032)  | (20,631)  |
| Total net assets for common stock (million yen)                              | 245,750   | 243,460   |
| Number of common stocks issued (shares)                                      | 177,410,239   | 177,410,239   |
| Number of treasury stocks (shares)   | 278,529   | 280,362   |
| Number of common stocks used for calculation of net asset per share (shares) | 177,131,710   | 177,129,877   |

2. The basis for calculating net income per share and net income per share fully diluted is as follows.

|  | Fiscal year ended March 31,<br>2015 | Fiscal year ended March 31,<br>2016 |
|--|-------------------------------------|-------------------------------------|
| Net income per share   |                                     |                                     |
| Net income attributable to owners of parent (million yen)  | 18,572                              | 9,727                               |
| Income not available to common stockholders (million yen)  | -                                   | -                                   |
| Net income attributable to owners of parent for common stock (million yen)   | 18,572                              | 9,727                               |
| Weighted average number of shares issued (shares)  | 177,132,685                         | 177,130,772                         |
| Net income per share fully diluted   |                                     |                                     |
| Adjusted net income attributable to owners of parent (million yen)   | -                                   | -                                   |
| Common shares increase (shares)  | 10,706,638                          | 10,729,522                          |
| (Convertible bonds with stock acquisition rights (shares))   | (10,706,638)                        | (10,706,638)                        |
| (Stock acquisition rights (shares))  | (-)                                 | (22,884)                            |
| Overview of potentially dilutive common shares not included in computation of diluted net income per share because of their anti-dilutive effect | -                                   | -                                   |



## (Important Subsequent Events)

Transactions under common control

Acquisition of additional shares in subsidiary

## 1. Overview of merger

## (1) Name of acquired company and description of business

Name of acquired company: Gehan Homes, Ltd. and six other companies

Description of business: Detached spec homes business and related businesses

## (2) Date of merger

April 29, 2016 (US time)

## (3) Legal form of merger

Cash-based stake acquisition

## (4) Name of company after merger

No change in name

## (5) Matters pertaining to summary of other transactions

Stake held by non-controlling interests was acquired to accelerate efforts to create synergy between Group companies. As a result, the Group's percentage of voting rights increased from 51% to 100%.

## 2. Summary of accounting treatment

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

## 3. Matters pertaining to acquisition of additional stake

Breakdown of acquisition price and type of consideration

|                   |      |                 |
|-------------------|------|-----------------|
| Acquisition price | Cash | ¥14,744 million |
| <hr/>             |      |                 |
| Acquisition cost  |      | ¥14,744 million |

Note: The amount above is an estimate at the time of acquisition. The actual amount may vary depending on future value adjustments.

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

## (1) Key factors behind change in capital surplus

Acquisition of additional stake in subsidiary

## (2) Amount of reduction in capital surplus resulting from transaction with non-controlling interests

Not yet determined.

## 6. Non-consolidated Financial Statements

### (1) Balance Sheet

(million yen)

|  | As of March 31, 2015 | As of March 31, 2016 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets   |                      |                      |
| Cash and time deposits                                       | 68,412               | 69,191               |
| Notes receivable-trade                                       | 45,559               | 46,797               |
| Accounts receivable-trade                                    | 57,990               | 59,264               |
| Accounts receivable from completed construction contracts    | 1,403                | 2,043                |
| Marketable securities  | 26,000               | 34,000               |
| Finished goods, logs and lumber                              | 12,939               | 12,299               |
| Costs on uncompleted construction contracts                  | 14,067               | 14,584               |
| Developed land and housing for sale                          | 22,434               | 20,607               |
| Real estate for sale in process                              | 5,028                | 5,543                |
| Advance payments   | 287                  | 378                  |
| Prepaid expenses   | 747                  | 904                  |
| Deferred tax assets  | 4,519                | 4,417                |
| Short-term loans receivable                                  | 30,193               | 29,999               |
| Short-term loans receivable from subsidiaries and affiliates | 26,586               | 29,093               |
| Accounts receivable-other                                    | 65,595               | 66,295               |
| Accrued consumption taxes                                    | 1,014                | -                    |
| Other  | 147                  | 84                   |
| Allowance for doubtful accounts                              | (730)                | (1,325)              |
| Total current assets   | 382,191              | 394,174              |
| Noncurrent assets  |                      |                      |
| Property, plant and equipment                                |                      |                      |
| Buildings  | 9,114                | 9,407                |
| Structures   | 424                  | 438                  |
| Machinery and equipment                                      | 379                  | 1,183                |
| Vehicles   | 2                    | 2                    |
| Tools, furniture and fixtures                                | 564                  | 526                  |
| Land   | 10,989               | 11,463               |
| Mature timber  | 8,668                | 8,629                |
| Growing timber   | 328                  | 351                  |
| Leased assets  | 4,814                | 3,660                |
| Construction in progress                                     | 1,410                | 1,207                |
| Total property, plant and equipment                          | 36,692               | 36,865               |
| Intangible assets  |                      |                      |
| Telephone subscription right                                 | 181                  | 180                  |
| Right of utilization on forest road                          | 138                  | 124                  |
| Right of using facilities                                    | 3                    | 3                    |
| Industrial property rights                                   | 10                   | 9                    |
| Software   | 4,761                | 4,464                |
| Total Intangible assets                                      | 5,093                | 4,780                |

(million yen)

|  | As of March 31, 2015 | As of March 31, 2016 |
|--|----------------------|----------------------|
| Investments and other assets   |                      |                      |
| Investment securities  | 61,359               | 52,447               |
| Stocks of subsidiaries and affiliates                                      | 27,070               | 37,932               |
| Investments in other securities of subsidiaries and affiliates             | 1,072                | 1,415                |
| Long-term loans receivable   | 39                   | 186                  |
| Long-term loans receivable from employees                                  | 27                   | 25                   |
| Long-term loans receivable from subsidiaries and affiliates                | 11,887               | 13,779               |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 1,984                | 1,678                |
| Long-term prepaid expenses   | 454                  | 422                  |
| Other  | 3,902                | 4,069                |
| Allowance for doubtful accounts  | (4,217)              | (4,115)              |
| Total investments and other assets   | 103,576              | 107,839              |
| Total noncurrent assets  | 145,361              | 149,484              |
| Total assets   | 527,552              | 543,658              |
| Liabilities  |                      |                      |
| Current liabilities  |                      |                      |
| Notes payable-trade  | 12,488               | 17,256               |
| Accounts payable-trade   | 69,613               | 67,551               |
| Accounts payable for construction contracts                                | 78,288               | 81,556               |
| Long-term debt due within 1 year   | 6,361                | 1,373                |
| Current portion of bonds   | –                    | 5,000                |
| Lease obligations  | 1,947                | 1,728                |
| Accounts payable-other   | 6,372                | 6,258                |
| Income taxes payable   | 2,601                | 4,519                |
| Accrued consumption taxes  | –                    | 3,597                |
| Accrued expenses   | 870                  | 942                  |
| Advances received  | 763                  | 862                  |
| Advances received on uncompleted construction contracts                    | 38,817               | 39,488               |
| Deposits received  | 29,770               | 35,357               |
| Unearned revenue   | 1,358                | 1,277                |
| Provision for Employees' bonuses   | 5,780                | 6,340                |
| Provision for directors' bonuses   | 135                  | 130                  |
| Provision for warranties for completed construction                        | 1,367                | 1,438                |
| Asset retirement obligation  | 467                  | 478                  |
| Other  | 264                  | 82                   |
| Total current liabilities  | 257,261              | 275,234              |
| Long-term liabilities  |                      |                      |
| Bonds issued   | 5,000                | –                    |
| Convertible bonds  | 20,000               | 20,000               |
| Long-term debt   | 11,932               | 14,384               |
| Guarantee deposited  | 4,971                | 4,790                |
| Lease obligations  | 2,933                | 1,996                |
| Deferred tax liabilities   | 9,602                | 3,110                |
| Provision for retirement benefits  | 5,901                | 14,991               |
| Provision for loss on business of subsidiaries and affiliates              | 4,036                | 2,641                |
| Asset retirement obligation  | 815                  | 764                  |
| Other  | 2,050                | 2,796                |
| Total long-term liabilities  | 67,239               | 65,473               |
| Total liabilities  | 324,500              | 340,706              |

(million yen)

|   | As of March 31, 2015 | As of March 31, 2016 |
|---|----------------------|----------------------|
| Net assets  |                      |                      |
| Shareholders' equity                                  |                      |                      |
| Common stock  | 27,672               | 27,672               |
| Capital surplus                                       |                      |                      |
| Legal capital surplus                                 | 26,613               | 26,613               |
| Other capital surplus                                 | 259                  | 259                  |
| Total capital surpluses                               | 26,872               | 26,872               |
| Retained earnings                                     |                      |                      |
| Legal retained earnings                               | 2,857                | 2,857                |
| Other retained earnings                               |                      |                      |
| Reserve for special depreciation                      | 140                  | 120                  |
| Reserve for reduction entry                           | 1,673                | 1,716                |
| General reserve                                       | 106,887              | 115,487              |
| Retained earnings brought forward                     | 14,998               | 12,358               |
| Total retained earnings                               | 126,556              | 132,538              |
| Treasury stock  | (275)                | (278)                |
| Total shareholders' equity                            | 180,825              | 186,804              |
| Valuation and translation adjustments                 |                      |                      |
| Valuation difference on available-for-sale securities | 22,389               | 16,169               |
| Deferred gains or losses on hedges                    | (162)                | (56)                 |
| Total valuation and translation adjustments           | 22,227               | 16,112               |
| Subscription rights to shares                         | -                    | 36                   |
| Total net assets                                      | 203,052              | 202,952              |
| Total liabilities and net assets                      | 527,552              | 543,658              |

## (2) Statements of Income

(million yen)

|  | As of March 31, 2015 | As of March 31, 2016 |
|--|----------------------|----------------------|
| Net sales  |                      |                      |
| Net sales of goods   | 383,776              | 385,253              |
| Completed contracts  | 330,807              | 322,543              |
| Total net sales  | 714,583              | 707,796              |
| Cost of sales  |                      |                      |
| Cost of goods sold   | 365,768              | 367,077              |
| Cost of completed contracts  | 248,093              | 238,535              |
| Total cost of sales  | 613,861              | 605,612              |
| Gross profit   | 100,722              | 102,184              |
| Selling, general and administrative expenses                               | 81,800               | 91,077               |
| Operating income   | 18,922               | 11,107               |
| Non-operating income   |                      |                      |
| Interest income  | 453                  | 404                  |
| Interest on securities   | 55                   | 53                   |
| Purchase discounts   | 291                  | 280                  |
| Dividends income   | 5,170                | 8,902                |
| Other  | 991                  | 1,189                |
| Total non-operating income   | 6,961                | 10,827               |
| Non-operating expenses   |                      |                      |
| Interest expenses  | 268                  | 229                  |
| Bond interest expenses   | 115                  | 78                   |
| Sales discounts  | 595                  | 561                  |
| Other  | 266                  | 480                  |
| Total non-operating expenses   | 1,244                | 1,348                |
| Recurring income   | 24,640               | 20,586               |
| Extraordinary gains  |                      |                      |
| Gain on sales of noncurrent assets   | 289                  | 442                  |
| Gain on sales of investment securities                                     | 128                  | 33                   |
| Gain on liquidation of subsidiaries and affiliates                         | –                    | 140                  |
| Total extraordinary gains  | 417                  | 615                  |
| Extraordinary loss   |                      |                      |
| Loss on sales of noncurrent assets   | 1                    | 5                    |
| Loss on retirement of noncurrent assets                                    | 110                  | 79                   |
| Impairment loss  | 17                   | 1,123                |
| Loss on sales of investment securities                                     | 3                    | –                    |
| Loss on devaluation of investment securities                               | 0                    | –                    |
| Loss on valuation of investments in capital of subsidiaries and affiliates | 1,283                | 1,463                |
| Loss on valuation of stocks of subsidiaries and affiliates                 | 1,295                | 1,226                |
| Loss on forgiveness of debt of subsidiaries and affiliates                 | –                    | 3,218                |
| Total extraordinary loss   | 2,709                | 7,114                |
| Income before income taxes   | 22,347               | 14,087               |
| Income taxes-current   | 6,685                | 7,692                |
| Income taxes-deferred  | 811                  | (3,838)              |
| Total income taxes   | 7,496                | 3,854                |
| Net income   | 14,851               | 10,233               |

## (3) Statements of Changes in Net Assets

Fiscal year ended March 31, 2015

(million yen)

|  | Shareholders' equity |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
|--|----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|-----------------------------|-----------------|-----------------------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus       |                       | Legal retained earnings | Retained earnings                |                             |                 |                                   | Treasury stock | Total shareholders' equity |
|  |                      | Legal capital surplus | Other capital surplus |                         | Other retained earnings          |                             |                 |                                   |                |                            |
|  |                      |                       |                       |                         | Reserve for special depreciation | Reserve for reduction entry | General reserve | Retained earnings brought forward |                |                            |
| Balance at the beginning of current period   | 27,672               | 26,613                | 259                   | 2,857                   | 156                              | 1,444                       | 94,387          | 17,629                            | (272)          | 170,745                    |
| Cumulative effect of changes in accounting policies                                  |                      |                       |                       |                         |                                  |                             |                 | (1,403)                           |                | (1,403)                    |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672               | 26,613                | 259                   | 2,857                   | 156                              | 1,444                       | 94,387          | 16,226                            | (272)          | 169,342                    |
| Changes during the period  |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Provision of reserve for special depreciation  |                      |                       |                       |                         | 7                                |                             |                 | (7)                               |                | -                          |
| Reversal of reserve for special depreciation   |                      |                       |                       |                         | (22)                             |                             |                 | 22                                |                | -                          |
| Provision of reserve for reduction entry   |                      |                       |                       |                         |                                  | 229                         |                 | (229)                             |                | -                          |
| Provision of general reserve   |                      |                       |                       |                         |                                  |                             | 12,500          | (12,500)                          |                | -                          |
| Dividends from surplus   |                      |                       |                       |                         |                                  |                             |                 | (3,366)                           |                | (3,366)                    |
| Net income   |                      |                       |                       |                         |                                  |                             |                 | 14,851                            |                | 14,851                     |
| Purchase of treasury stock   |                      |                       |                       |                         |                                  |                             |                 |                                   | (3)            | (3)                        |
| Disposal of treasury stock   |                      |                       | 0                     |                         |                                  |                             |                 |                                   | 0              | 0                          |
| Net changes in items other than shareholders' equity                                 |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Total changes during the period  | -                    | -                     | 0                     | -                       | (16)                             | 229                         | 12,500          | (1,228)                           | (2)            | 11,483                     |
| Balance at the end of current period   | 27,672               | 26,613                | 259                   | 2,857                   | 140                              | 1,673                       | 106,887         | 14,998                            | (275)          | 180,825                    |

|  | Valuation and translation adjustments                 |                                    | Subscription rights to shares | Total net assets |
|--|---|------------------------------------|-------------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges |                               |                  |
| Balance at the beginning of current period   | 14,666  | 28                                 | –                             | 185,439          |
| Cumulative effect of changes in accounting policies                                  |   |                                    |                               | (1,403)          |
| Balance at the beginning of current period reflecting changes in accounting policies | 14,666  | 28                                 | –                             | 184,036          |
| Changes during the period  |   |                                    |                               |                  |
| Provision of reserve for special depreciation  |   |                                    |                               | –                |
| Reversal of reserve for special depreciation   |   |                                    |                               | –                |
| Provision of reserve for reduction entry   |   |                                    |                               | –                |
| Provision of general reserve   |   |                                    |                               | –                |
| Dividends from surplus   |   |                                    |                               | (3,366)          |
| Net income   |   |                                    |                               | 14,851           |
| Purchase of treasury stock   |   |                                    |                               | (3)              |
| Disposal of treasury stock   |   |                                    |                               | 0                |
| Net changes in items other than shareholders' equity                                 | 7,723   | (190)                              | –                             | 7,533            |
| Total changes during the period  | 7,723   | (190)                              | –                             | 19,015           |
| Balance at the end of current period   | 22,389  | (162)                              | –                             | 203,052          |

Fiscal year ended March 31, 2016

(million yen)

|  | Shareholders' equity |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
|--|----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|-----------------------------|-----------------|-----------------------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus       |                       | Retained earnings       |                                  |                             |                 |                                   | Treasury stock | Total shareholders' equity |
|  |                      | Legal capital surplus | Other capital surplus | Legal retained earnings | Other retained earnings          |                             |                 |                                   |                |                            |
|  |                      |                       |                       |                         | Reserve for special depreciation | Reserve for reduction entry | General reserve | Retained earnings brought forward |                |                            |
| Balance at the beginning of current period   | 27,672               | 26,613                | 259                   | 2,857                   | 140                              | 1,673                       | 106,887         | 14,998                            | (275)          | 180,825                    |
| Cumulative effect of changes in accounting policies                                  |                      |                       |                       |                         |                                  |                             |                 |                                   |                | -                          |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672               | 26,613                | 259                   | 2,857                   | 140                              | 1,673                       | 106,887         | 14,998                            | (275)          | 180,825                    |
| Changes during the period  |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Provision of reserve for special depreciation  |                      |                       |                       |                         | 3                                |                             |                 | (3)                               |                | -                          |
| Reversal of reserve for special depreciation   |                      |                       |                       |                         | (23)                             |                             |                 | 23                                |                | -                          |
| Provision of reserve for reduction entry   |                      |                       |                       |                         |                                  | 43                          |                 | (43)                              |                | -                          |
| Provision of general reserve   |                      |                       |                       |                         |                                  |                             | 8,600           | (8,600)                           |                | -                          |
| Dividends from surplus   |                      |                       |                       |                         |                                  |                             |                 | (4,251)                           |                | (4,251)                    |
| Net income   |                      |                       |                       |                         |                                  |                             |                 | 10,233                            |                | 10,233                     |
| Purchase of treasury stock   |                      |                       |                       |                         |                                  |                             |                 |                                   | (3)            | (3)                        |
| Disposal of treasury stock   |                      |                       |                       |                         |                                  |                             |                 |                                   |                | -                          |
| Net changes in items other than shareholders' equity                                 |                      |                       |                       |                         |                                  |                             |                 |                                   |                |                            |
| Total changes during the period  | -                    | -                     | -                     | -                       | (20)                             | 43                          | 8,600           | (2,640)                           | (3)            | 5,979                      |
| Balance at the end of current period   | 27,672               | 26,613                | 259                   | 2,857                   | 120                              | 1,716                       | 115,487         | 12,358                            | (278)          | 186,804                    |



|  | Valuation and translation adjustments                 |                                    | Subscription rights to shares | Total net assets |
|--|---|------------------------------------|-------------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges |                               |                  |
| Balance at the beginning of current period   | 22,389  | (162)                              | –                             | 203,052          |
| Cumulative effect of changes in accounting policies                                  |   |                                    |                               | –                |
| Balance at the beginning of current period reflecting changes in accounting policies | 22,389  | (162)                              | –                             | 203,052          |
| Changes during the period  |   |                                    |                               |                  |
| Provision of reserve for special depreciation  |   |                                    |                               | –                |
| Reversal of reserve for special depreciation   |   |                                    |                               | –                |
| Provision of reserve for reduction entry   |   |                                    |                               | –                |
| Provision of general reserve   |   |                                    |                               | –                |
| Dividends from surplus   |   |                                    |                               | (4,251)          |
| Net income   |   |                                    |                               | 10,233           |
| Purchase of treasury stock   |   |                                    |                               | (3)              |
| Disposal of treasury stock   |   |                                    |                               | –                |
| Net changes in items other than shareholders' equity                                 | (6,220)   | 106                                | 36                            | (6,079)          |
| Total changes during the period  | (6,220)   | 106                                | 36                            | (99)             |
| Balance at the end of current period   | 16,169  | (56)                               | 36                            | 202,952          |

## **7. Other**

### Changes in Directors and Corporate Auditors

An announcement was made on February 29, 2016.

## 8. Supplementary Information

### (1) Consolidated Statements of Income

(million yen)

|  | FY 3/15     |                | FY 3/16     |                  | YoY change     | % of YoY change | FY 3/17 (Forecast) |                  | YoY change      | % of YoY change |
|--|-------------|----------------|-------------|------------------|----------------|-----------------|--------------------|------------------|-----------------|-----------------|
| Timber and Building Materials Business                   |             | 423,020        |             | 426,965          | +3,945         | +0.9%           |                    | 448,000          | +21,035         | +4.9%           |
| Housing Business   |             | 453,940        |             | 454,604          | +663           | +0.1%           |                    | 481,000          | +26,396         | +5.8%           |
| Overseas Business  |             | 147,024        |             | 187,926          | +40,901        | +27.8%          |                    | 258,000          | +70,074         | +37.3%          |
| Others   |             | 16,565         |             | 16,874           | +310           | +1.9%           |                    | 23,500           | +6,626          | +39.3%          |
| % Adjustment   |             | (43,293)       |             | (45,844)         | (2,551)        | -               |                    | (60,500)         | (14,656)        | -               |
| <b>Net Sales</b>   |             | <b>997,256</b> |             | <b>1,040,524</b> | <b>+43,268</b> | <b>+4.3%</b>    |                    | <b>1,150,000</b> | <b>+109,476</b> | <b>+10.5%</b>   |
| Gross Profit   | 17.0%       | 169,492        | 17.6%       | 183,134          | +13,642        | +8.0%           | 17.8%              | 205,000          | +21,866         | +11.9%          |
| Selling, General and Administrative Expenses             |             | 135,498        |             | 153,041          | +17,543        | +12.9%          |                    | 159,000          | +5,959          | +3.9%           |
| Operating Income   | 3.4%        | 33,994         | 2.9%        | 30,093           | (3,901)        | (11.5%)         | 4.0%               | 46,000           | +15,907         | +52.9%          |
| Other Income   |             | 5,005          |             | 5,088            | +83            | +1.6%           |                    | 7,000            | +1,912          | +37.6%          |
| Other Expenses   |             | 2,575          |             | 4,674            | +2,099         | +81.5%          |                    | 5,000            | +326            | +7.0%           |
| Other Income/Expenses                                    |             | 2,430          |             | 414              | (2,016)        | (83.0%)         |                    | 2,000            | +1,586          | +383.6%         |
| Timber and Building Materials Business                   | 1.0%        | 4,039          | 0.8%        | 3,352            | (686)          | (17.0%)         | 1.0%               | 4,500            | +1,148          | +34.2%          |
| Housing Business   | 6.2%        | 28,302         | 6.9%        | 31,512           | +3,209         | +11.3%          | 6.7%               | 32,000           | +488            | +1.5%           |
| Overseas Business  | 4.2%        | 6,126          | 7.0%        | 13,091           | +6,965         | +113.7%         | 6.0%               | 15,500           | +2,409          | +18.4%          |
| Others   | 7.1%        | 1,175          | (6.1%)      | (1,022)          | (2,197)        | -               | 4.3%               | 1,000            | +2,022          | -               |
| Adjustment   |             | (3,219)        |             | (16,427)         | (13,208)       | -               |                    | (5,000)          | +11,427         | -               |
| <b>Recurring Income</b>                                  | <b>3.7%</b> | <b>36,424</b>  | <b>2.9%</b> | <b>30,507</b>    | <b>(5,917)</b> | <b>(16.2%)</b>  | <b>4.2%</b>        | <b>48,000</b>    | <b>+17,493</b>  | <b>+57.3%</b>   |
| Special Gains  |             | 531            |             | 1,441            | +909           | +171.1%         |                    | -                | (1,441)         | -               |
| Special Losses   |             | 2,217          |             | 5,704            | +3,487         | +157.3%         |                    | -                | (5,704)         | -               |
| Special Gains/Losses                                     |             | (1,686)        |             | (4,264)          | (2,578)        | -               |                    | -                | +4,264          | -               |
| Profit for the Year Attributable to Owners of the Parent | 1.9%        | 18,572         | 0.9%        | 9,727            | (8,845)        | (47.6%)         | 2.3%               | 27,000           | +17,273         | +177.6%         |

## (2) &lt;Housing Business &amp; Real Estate Business&gt; Sales and Orders Received (non-consolidated) (million yen)

## (a) Actual

|  |                                 |                                 | FY 3/15(Actual) |         |            | FY 3/16(Actual) |         |            | Change  |         |
|--|---------------------------------|---------------------------------|-----------------|---------|------------|-----------------|---------|------------|---------|---------|
|  |                                 |                                 | Volume          | Amount  | Unit price | Volume          | Amount  | Unit price | Volume  | Amount  |
| Orders Received                              | Contract Business               | Custom-built detached houses *1 | 7,804           | 290,203 | 33.2       | 7,730           | 297,490 | 34.1       | (0.9%)  | +2.5%   |
|  |                                 | Apartments *1                   | 1,486           | 21,790  | 14.4       | 1,523           | 22,967  | 14.6       | +2.5%   | +5.4%   |
|  |                                 | Other contract work             |                 | 1,435   | -          |                 | 4,371   | -          |         | 204.7%  |
| Sales  | Contract Business               | Custom-built detached houses *2 | 8,743           | 313,396 | 35.8       | 7,962           | 299,837 | 37.7       | (8.9%)  | (4.3%)  |
|  |                                 | Apartments *2                   | 1,014           | 13,569  | 13.4       | 1,324           | 20,514  | 15.5       | +30.6%  | +51.2%  |
|  |                                 | Other contract work             |                 | 2,791   | -          |                 | 2,091   | -          |         | (25.1%) |
|  | Detached spec homes business *3 | 272                             | 10,174          | 37.4    | 303        | 11,606          | 38.3    | +11.4%     | +14.1%  |         |
|  | Land for custom-built housing   |                                 | 5,532           | -       |            | 4,921           | -       |            | (11.0%) |         |
|  | Renovation Business             |                                 | 5,685           | -       |            | 4,756           | -       |            | (16.3%) |         |
|  | Others *4                       |                                 | 8,026           | -       |            | 8,011           | -       |            | (0.2%)  |         |
| Total  |                                 |                                 |                 | 359,173 | -          |                 | 351,737 | -          |         | (2.1%)  |
| Profit Ratio                                 |                                 |                                 | 24.6%           | 88,341  |            | 25.5%           | 89,860  |            |         |         |
| Gross profit                                 |                                 |                                 |                 |         |            |                 |         |            |         |         |
| Backlog of Orders Received at Term End       | Contract Business               | Custom-built detached houses    | 7,642           | 272,571 | 35.7       | 7,410           | 270,224 | 36.5       | (3.0%)  | (0.9%)  |
|  |                                 | Apartments                      | 1,865           | 25,698  | 13.8       | 2,064           | 28,151  | 13.6       | +10.7%  | +9.5%   |
|  |                                 | Other contracts                 |                 | 468     | -          |                 | 2,748   | -          |         | +487.4% |
| <<Sumitomo Forestry Home Tech (Renovation)>> |                                 |                                 |                 |         |            |                 |         |            |         |         |
| Orders Received                              | Contract Business               |                                 |                 | 55,887  | -          |                 | 63,604  | -          |         | +13.8%  |
| Construction Completed                       |                                 |                                 |                 | 56,656  | -          |                 | 61,724  | -          |         | +8.9%   |
| Backlog of Orders Received at Term End       |                                 |                                 |                 | 22,327  | -          |                 | 24,207  | -          |         | +8.4%   |

(million yen)

## (b) Forecast

|  |                                 |                                 | FY 3/16(Actual) |         |            | FY 3/17 (Forecast) |         |            | Change |         |
|--|---------------------------------|---------------------------------|-----------------|---------|------------|--------------------|---------|------------|--------|---------|
|  |                                 |                                 | Volume          | Amount  | Unit price | Volume             | Amount  | Unit price | Volume | Amount  |
| Orders Received                              | Contract Business               | Custom-built detached houses *1 | 7,730           | 297,490 | 34.1       | 8,200              | 310,800 | 33.4       | +6.1%  | +4.5%   |
|  |                                 | Apartments *1                   | 1,523           | 22,967  | 14.6       | 1,750              | 25,500  | 14.6       | +14.9% | +11.0%  |
|  |                                 | Other contract work             |                 | 4,371   | -          |                    | 4,500   | -          |        | +3.0%   |
| Sales  | Contract Business               | Custom-built detached houses *2 | 7,962           | 299,837 | 37.7       | 8,100              | 307,000 | 37.9       | +1.7%  | +2.4%   |
|  |                                 | Apartments *2                   | 1,324           | 20,514  | 15.5       | 1,620              | 23,500  | 14.5       | +22.4% | +14.6%  |
|  |                                 | Other contract work             |                 | 2,091   | -          |                    | 4,700   | -          |        | +124.8% |
|  | Detached spec homes business *3 | 303                             | 11,606          | 38.3    | 320        | 12,100             | 37.8    | +5.6%      | +4.3%  |         |
|  | Land for custom-built housing   |                                 | 4,921           | -       |            | 4,500              | -       |            | (8.6%) |         |
|  | Renovation Business *4          |                                 | 4,756           | -       |            | 4,500              | -       |            | (5.4%) |         |
|  | Others *5                       |                                 | 8,011           | -       |            | 8,100              | -       |            | +1.1%  |         |
| Total  |                                 |                                 |                 | 351,737 | -          |                    | 364,400 | -          |        | +3.6%   |
| Profit Ratio                                 |                                 |                                 | 25.5%           | 89,860  |            | 25.5%              | 92,900  |            |        |         |
| Gross profit                                 |                                 |                                 |                 |         |            |                    |         |            |        |         |
| Backlog of Orders Received at Term End       | Contract Business               | Custom-built detached houses    | 7,410           | 270,224 | 36.5       | 7,510              | 274,024 | 36.5       | +1.3%  | +1.4%   |
|  |                                 | Apartments                      | 2,064           | 28,151  | 13.6       | 2,194              | 30,151  | 13.7       | +6.3%  | +7.1%   |
|  |                                 | Other contract work             |                 | 2,748   | -          |                    | 2,548   | -          |        | (7.3%)  |
| <<Sumitomo Forestry Home Tech (Renovation)>> |                                 |                                 |                 |         |            |                    |         |            |        |         |
| Orders Received                              | Contract Business               |                                 |                 | 63,604  | -          |                    | 71,600  | -          |        | +12.6%  |
| Construction Completed                       |                                 |                                 |                 | 61,724  | -          |                    | 69,300  | -          |        | +12.3%  |
| Backlog of Orders Received at Term End       |                                 |                                 |                 | 24,207  | -          |                    | 26,507  | -          |        | +9.5%   |

\*1: The unit price of orders received for custom-built detached houses and apartments is calculated from orders received at the time the contract pertaining to the property is concluded in the current term, so orders received for additional construction and other work are excluded.

\*2: Sales volumes for custom-built detached housing and wooden apartments are delivered houses (number of houses is shown.)

\*3: Detached spec homes business sales are the total for land and buildings.

\*4: Other sales include interior products and condominiums.

## (3) Main Subsidiaries

(million yen)

| Company name<br>(Head Office)<br>(Segment)  | Founded  | Capital<br>stock             | Ownership<br>*1 | Accounting<br>term | Statements of Income |                     |                     |  | Balance Sheets  |            |
|---|----------|------------------------------|-----------------|--------------------|----------------------|---------------------|---------------------|--|-----------------|------------|
|   |          |                              |                 |                    | Net sales            | Operating<br>income | Recurring<br>income | Profit for the<br>Year<br>Attributable to<br>Owners of the<br>Parent | Total<br>assets | Net assets |
| Sumitomo Forestry Crest Co., Ltd.<br>(Nagoya, Aichi Prefecture)<br>(Timber and Building Materials Business) | Aug 1959 | 800                          | 100.0%          | FY 3/15            | 37,469               | 154                 | 73                  | (1,438)  | 18,209          | 1,194      |
|   |          |                              |                 | FY 3/16            | 36,545               | (483)               | (616)               | (533)  | 18,151          | 674        |
|   |          |                              |                 | FY 3/17(F)         | 36,700               | 450                 | 300                 | 250  | —               | —          |
| Sumitomo Forestry Residential Co., Ltd.<br>(Shinjuku-ku, Tokyo)<br>(Housing Business)                       | Mar 1985 | 150                          | 100.0%          | FY 3/15            | 20,377               | 685                 | 642                 | 412  | 10,346          | 3,519      |
|   |          |                              |                 | FY 3/16            | 22,661               | 851                 | 818                 | 515  | 11,926          | 4,034      |
|   |          |                              |                 | FY 3/17(F)         | 23,800               | 820                 | 800                 | 560  | —               | —          |
| Sumitomo Forestry Home Engineering Co., Ltd.<br>(Shinjuku-ku, Tokyo)<br>(Housing Business)                  | Dec 1999 | 75                           | 100.0%          | FY 3/15            | 82,861               | 700                 | 800                 | 508  | 29,078          | 3,343      |
|   |          |                              |                 | FY 3/16            | 77,454               | 542                 | 739                 | 480  | 29,667          | 3,315      |
|   |          |                              |                 | FY 3/17(F)         | 81,500               | 740                 | 870                 | 600  | —               | —          |
| Sumitomo Forestry Home Service Co., Ltd.<br>(Shinjuku-ku, Tokyo)<br>(Housing Business)                      | Sep 1964 | 400                          | 100.0%          | FY 3/15            | 6,089                | 282                 | 267                 | 524  | 3,664           | 747        |
|   |          |                              |                 | FY 3/16            | 5,945                | 398                 | 289                 | 552  | 3,486           | 1,299      |
|   |          |                              |                 | FY 3/17(F)         | 6,500                | 470                 | 450                 | 300  | —               | —          |
| Sumitomo Forestry Landscaping Co., Ltd.<br>(Nakano-ku, Tokyo)<br>(Housing Business)                         | Apr 1977 | 200                          | 100.0%          | FY 3/15            | 27,946               | 1,108               | 1,141               | 686  | 11,445          | 3,761      |
|   |          |                              |                 | FY 3/16            | 28,996               | 1,030               | 1,024               | 604  | 12,333          | 3,679      |
|   |          |                              |                 | FY 3/17(F)         | 28,400               | 1,200               | 1,200               | 880  | —               | —          |
| Sumitomo Forestry Home Tech Co., Ltd.<br>(Chiyoda-ku, Tokyo)<br>(Housing Business)                          | Oct 1988 | 100                          | 100.0%          | FY 3/15            | 59,646               | 2,610               | 2,651               | 1,635  | 22,359          | 3,880      |
|   |          |                              |                 | FY 3/16            | 64,854               | 2,621               | 2,673               | 1,682  | 26,851          | 3,927      |
|   |          |                              |                 | FY 3/17(F)         | 71,900               | 3,500               | 3,500               | 2,400  | —               | —          |
| PT. Kutai Timber Indonesia<br>(Jakarta, Indonesia)<br>(Overseas Business) *2                                | Sep 1970 | 27,000<br>(Thousand<br>US\$) | 99.9%           | FY 3/14            | 13,122               | 772                 | 782                 | 585  | 8,741           | 4,443      |
|   |          |                              |                 | FY 3/15            | 13,583               | 995                 | 838                 | 561  | 8,933           | 4,846      |
|   |          |                              |                 | FY 3/16 (F)        | 14,100               | 880                 | 840                 | 630  | —               | —          |
| Alpine MDF Industries Pty Ltd.<br>(Wangaratta, Victoria, Australia)<br>(Overseas Business) *3               | May 1994 | 62,474<br>(Thousand<br>AUS)  | (100.0%)        | FY 3/14            | 4,544                | (232)               | (329)               | (369)  | 4,268           | 346        |
|   |          |                              |                 | FY 3/15            | 5,202                | 229                 | 144                 | 132  | 3,626           | 438        |
|   |          |                              |                 | FY 3/16 (F)        | 4,700                | 180                 | 100                 | 90   | —               | —          |
| Henley Group<br>(Mount Waverley, Victoria, Australia)<br>(Overseas Business) *3 *5                          | Oct 1989 | 42,325<br>(Thousand<br>AUS)  | (51.0%)         | FY 3/14            | 67,671               | 5,990               | 5,762               | 4,230  | 38,000          | 16,730     |
|   |          |                              |                 | FY 3/15            | 73,281               | 6,586               | 6,346               | 4,754  | 33,672          | 18,971     |
|   |          |                              |                 | FY 3/16 (F)        | 72,400               | 5,000               | 4,800               | 3,100  | —               | —          |
| Nelson Pine Industries Ltd.<br>(Richmond, Nelson, New Zealand)<br>(Overseas Business) *4                    | Oct 1984 | 45,500<br>(Thousand<br>NZ\$) | (100.0%)        | FY 3/14            | 15,637               | 256                 | 468                 | 336  | 20,558          | 18,209     |
|   |          |                              |                 | FY 3/15            | 17,281               | 985                 | 1,018               | 734  | 17,383          | 15,208     |
|   |          |                              |                 | FY 3/16 (F)        | 14,700               | 690                 | 690                 | 500  | —               | —          |
| Gehan Homes Group<br>(Addison, Texas, USA)<br>(Overseas Business) *2 *6                                     | May 1994 | 706<br>(Thousand<br>US\$)    | (51.0%)         | FY 3/14            | 29,241               | 3,106               | 3,141               | 3,021  | 29,544          | 9,946      |
|   |          |                              |                 | FY 3/15            | 59,061               | 6,475               | 6,952               | 6,838  | 33,619          | 13,590     |
|   |          |                              |                 | FY 3/16 (F)        | 61,900               | 6,500               | 6,000               | 5,900  | —               | —          |

\*1 Figures in parentheses are for indirect investments.

\*2, \*3, \*4 The following exchange rates were used to convert into yen the income statements of overseas group companies.

\*5 The Henley Group consists of eight companies, including Henley Arch Unit Trust.

\*6 The Gehan Homes Group consists of eight companies, including Gehan Homes, Ltd. The figures from the statements of income for the full year ending 12/14 are for the eight months following the date of acquisition of a stake in the Company. Additional stake was acquired in the company on April 29, 2016, bringing our stake up from 51% to 100%.

|                    | *2<br>US\$ | *3<br>AUS | *4<br>NZ\$ |
|--------------------|------------|-----------|------------|
| FY 12/14           | 105.88     | 95.38     | 87.78      |
| FY 12/15           | 121.05     | 91.06     | 84.71      |
| FY 12/16(Forecast) | 115.00     | 84.00     | 76.00      |