

[TRANSLATION]

The following is an unofficial English translation of “Matters Available on the Website in relation to the Notice of Convocation of the 78th Ordinary General Meeting of Shareholders” by Sumitomo Forestry Co., Ltd. (“Company”). The Company provides this English translation for your reference and convenience only and without any warranty as to its accuracy or otherwise. The Japanese original is the sole official version and shall prevail in the event of any discrepancy between it and this English translation.

MATTERS AVAILABLE ON THE WEBSITE IN RELATION TO THE NOTICE OF CONVOCATION OF THE 78th ORDINARY GENERAL MEETING OF SHAREHOLDERS

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(from April 1, 2017 to March 31, 2018)

Sumitomo Forestry Co., Ltd.

The information above is made available on the Company’s website (<http://sfc.jp/english>) pursuant to the relevant laws and regulations, and Article 17 of the Articles of Incorporation of the Company.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2018

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	27,672	18,637	196,511	(280)	242,541
Amount of financial impact arising from finalization of provisional accounting treatment					
Balance at the beginning of current period reflecting finalization of provisional accounting treatment	27,672	18,637	196,511	(280)	242,541
Changes during the period					
Issuance of new shares	5,000	5,000			10,000
Dividends from surplus			(7,085)		(7,085)
Net income attributable to owners of parent			30,135		30,135
Purchase of treasury stock				(2,053)	(2,053)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					
Total changes during the period	5,000	5,000	23,050	(2,053)	30,998
Balance at the end of current period	32,672	23,637	219,562	(2,333)	273,538

	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	25,896	(80)	6,874	(320)	32,370	82	20,352	295,344
Amount of financial impact arising from finalization of provisional accounting treatment							513	513
Balance at the beginning of current period reflecting finalization of provisional accounting treatment	25,896	(80)	6,874	(320)	32,370	82	20,864	295,857
Changes during the period								
Issuance of new shares								10,000
Dividends from surplus								(7,085)
Net income attributable to owners of parent								30,135
Purchase of treasury stock								(2,053)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								0
Net changes in items other than shareholders' equity	7,361	(141)	(1,821)	329	5,728	48	13,009	18,785
Total changes during the period	7,361	(141)	(1,821)	329	5,728	48	13,009	49,782
Balance at the end of current period	33,258	(221)	5,053	9	38,099	129	33,873	345,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant fundamental accounting policies for preparing consolidated financial statements

1. Scope of consolidation

There are 110 consolidated subsidiaries. The principal consolidated subsidiaries are Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Residential Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Mombetsu Biomass Electric Power Co., Ltd., Henley Arch Unit Trust, Henley Arch Pty Ltd., Nelson Pine Industries Ltd., Edge Utah HoldCo, LLC, MainVue Homes LLC, DRB Enterprises, LLC, Gehan Homes, Ltd. and Bloomfield Homes, L.P..

Beginning the consolidated fiscal year under review, Shinko Care Life Co., Ltd., SFA MF Holdings, LLC, Edge Saddlebrook, LLC and Ridgeview Development LLC, in which stakes were newly acquired, are included in the scope of consolidation. Additionally, Bloomfield Homes, L.P. and one other company as well as Creekstone Development LLC were equity-method affiliates in the previous consolidated fiscal year, but additional stake has been acquired, so they are now included in the scope of consolidation.

2. Application of equity method

- (1) There are 29 affiliates that are accounted for by the equity method. The principal equity-method affiliate is Kumagai Gumi Co., Ltd..

Beginning the consolidated fiscal year under review, CC-SFA MF Atherton, LLC, Kumagai Gumi Co., Ltd. and Grand Star Co., Ltd., in which stakes were newly acquired, are included as equity-method affiliates.

At the same time, Bloomfield Homes, L.P. and one other company as well as Creekstone Development LLC were equity-method affiliates in the previous consolidated fiscal year, but additional stake has been acquired, so they are no longer 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. Accounting periods of consolidated subsidiaries

The settlement date for 79 overseas consolidated subsidiaries is December 31, so when preparing the consolidated financial statements for the consolidated fiscal year under review, the financial statements as of December 31, 2017 were used. Additionally, the settlement date for two consolidated subsidiaries is March 20, so the financial statements as of March 20, 2018 have been used for them. Finally, the settlement date for one overseas consolidated subsidiary and 28 domestic consolidated subsidiaries is March 31, and the financial statements as of March 31, 2018 have been used for them.

4. Significant Accounting Policies

(1) Valuation standards and methods for important assets

a. Securities

Held-to-maturity securities

Amortized cost method (Straight-line method)

Other securities:

Securities with a market value

Value method based on the market price on the settlement date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)

Securities with no market value

Cost method based on the moving-average method

b. Derivatives

Market value method

c. Inventories

Finished goods, logs and lumber, work in process, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction contracts, developed land and housing for sale, 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) Method of depreciating significant assets

a. Property, plant and equipment (excluding lease assets)

For the Company and domestic consolidated subsidiaries, the fixed-percentage method is used primarily. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998 and for accessory equipment and structures acquired on or after April 1, 2017. For overseas consolidated subsidiaries, the straight-line method is used primarily.

b. 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).

c. 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) Standards for significant allowances

a. 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.

b. Provision for bonuses

Estimated bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to employees.

c. 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.

d. 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.

e. 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) Accounting process method of retirement benefits

a. Service period attribution method for projected retirement benefits

The method of attributing projected retirement benefits to the period up to fiscal year ended March 2017 when calculating retirement benefit obligations is as per the benefit formula standard.

b. 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 2017, 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) Main hedge accounting methods

a. Hedge accounting method

Deferred hedge accounting is adopted.

Appropriation accounting of 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.

b. 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.

c. 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.

d. Method of evaluation for 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 method and period 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) Other important items for compiling consolidated financial statements

Consumption tax

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

Notes to the consolidated balance sheet

(Million yen)

1. Pledged assets and secured liabilities	
(1) Pledged assets	
Cash and time deposits	1,787
Notes and accounts receivable-trade	31
Accounts receivable from completed construction contracts	1,703
Cost on uncompleted construction contracts	1,184
Developed land and housing for sale	22,712
Real estate for sale in process	58,247
Accounts receivable-other	90
Buildings and structures	5,474
Machinery, equipment and vehicles	12,207
Land	3,364
Construction in progress	68
Investment securities	18,280
Other	2,168
Total	127,314
(2) Secured liabilities	
Short-term loans payable	7,309
Long-term loans payable	35,398
Total	42,707
2. Accumulated depreciation of property, plant and equipment	101,188
3. Guaranteed Liabilities etc.	
Guarantee on loans, etc. from financial institutions	
Purchasers with housing loans applied	28,970
Kawasaki Biomass Electric Power Co., Ltd.	472
MOS Lumber Products Co., Ltd.	41
Total	29,484
4. Notes payable/receivable at the end of the consolidated fiscal year	
Notes payable/receivable at the end of the consolidated fiscal year are processed on their exchange dates. Because the final day of the current consolidated fiscal year was a holiday of financial institutions, the following notes payable/receivable at the end of the consolidated fiscal year are included in the consolidated fiscal year balance.	
Notes receivable - trade	7,360
Notes payable - trade	3,669

Notes to the consolidated statements of changes in net assets

1. The number of issued shares as of the end date of the consolidated fiscal year
 Ordinary shares 182,607,739

2. The number of treasury stock as of the end date of the consolidated fiscal year
 Ordinary shares 1,323,737

3. Items related to dividend

(1) Dividend payment

Resolution	Type of shares	Total amount of dividend (Million yen)	Dividend per share (Yen)	Base date	Effective date
Ordinary General Meeting of Shareholders on June 23, 2017	Ordinary shares	3,543	20.00	March 31, 2017	June 26, 2017
Board of Directors' Meeting on November 9, 2017	Ordinary shares	3,543	20.00	September 30, 2017	December 8, 2017

(2) Dividends for which the base dates belongs to the consolidated fiscal year and for which the effective date comes after the end of the consolidated fiscal year
 The following matters are due to be resolved at the Meeting.

Resolution	Type of shares	Total amount of dividend (Million yen)	Source of dividend	Dividend per share (Yen)	Base date	Effective date
Ordinary General Meeting of Shareholders on June 22, 2018	Ordinary shares	3,646	Retained earnings	20.00	March 31, 2018	June 25, 2018

4. Type and number of shares subject to subscription rights to shares as of the last day of the consolidated fiscal year under review (excluding those for which the execution period has not yet come)
 Ordinary shares 3,800

Notes on financial instruments

1. Matters relating to the state of financial instruments

The Company and its consolidated subsidiaries (“Group”) invest temporary surplus funds in highly safe and secure financial instruments, and use bank loans and bond issue as the primary means of raising capital.

The Group is working to reduce customers’ credit risks relating to operating receivables, notes and accounts receivable-trade and accounts receivable-other, in accordance with its credit control regulations. In addition, securities are primarily negotiable certificates of deposit subject to settlement in the short term. Investment securities are primarily held-to-maturity bonds and securities related to our business, and the Group periodically confirms the market value and financial conditions and other aspects of the issuing entities (corporate customers). The Group also consistently reviews the ownership of financial instruments excluding bonds held to maturity, in consideration of its relationships with corporate customers. Almost all operating debts such as notes and accounts payable-trade and accounts payable for construction contracts, are payable within one year.

The Group uses loans payable and bonds issued primarily to finance its operations and capital investment. The Group takes steps to stabilize its interest cost by interest rate swaps against the risk of interest rate fluctuations for the part of its long-term loans payable.

With respect to derivatives, the Group seeks to use them within a certain limit based on past records relating to ordinary business transactions in foreign currency, etc. The Group will not engage in speculative transactions.

2. Matters relating to the market value of financial instruments

The amounts stated in consolidated balance sheets, market value and their differences as of March 31, 2018 are shown in the table below. For your information, items of account which are of less importance in the consolidated balance sheet are omitted from this table. Also, items of account for which an accurate grasp of market value is recognized to be extremely difficult are not stated in this table. (refer to the (note 2))

(Million yen)

	Amount stated in consolidated balance sheets*1	Market value*1	Difference
(1) Cash and time deposits	105,865	105,865	—
(2) Notes and accounts receivable-trade	127,387	127,387	—
(3) Securities and investment securities			
a. Bonds held to maturity	1,768	1,824	55
b. Affiliates shares	33,498	32,015	(1,483)
c. Other securities	81,022	81,022	—
Total assets	349,540	348,113	(1,427)
(4) Notes and accounts payable-trade	(111,587)	(111,587)	—
(5) Accounts payable for construction contracts	(70,266)	(70,266)	—
(6) Corporate bonds	(50,000)	(49,907)	(93)
(7) Long-term loans payable *2	(89,201)	(88,451)	(749)
Total liabilities	(321,054)	(320,211)	(842)
(8) Derivatives transactions*3			
a. Hedge accounting not applied	322	322	—
b. Hedge accounting applied	(319)	(319)	—
Total derivatives	3	3	—

*1 Amounts stated under liabilities are shown in brackets.

*2 Amount of Long-term loan payable includes Long-term loan payable due within 1 year.

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

(Note 1) Methods for calculating the market value of financial instruments and matters relating to securities and derivatives trading

(1) Cash and time deposits and (2) Notes and accounts receivable-trade

Book value is stated for these items. Book value is almost the same as market value because short-term settlement creates the market value.

(3) Securities and investment securities

The market value stated for shares is the exchange quote value. The market value stated for bonds is the exchange quote value or the value indicated by financial institutions.

In addition, for negotiable deposit certificates, the book value is almost the same as the market value because short-term settlement creates the market value.

(4) Notes and accounts payable-trade and (5) Accounts payable for construction contracts

Book value is stated for these items. Book value is almost the same as market value because short-term settlement creates the market value.

(6) Corporate bonds

The market value of corporate bonds is calculated based on the market price.

(7) Long-term loans payable

Book value is stated for long-term loans payable with a variable interest rate, because their market value and book value are assumed to be close. The reasons for this assumption are that the loans reflect market interest rates in the short term and the credit condition of the Company did not significantly change after the loan offer. The present value is calculated for long-term loans payable with a fixed interest rate. The present value is calculated by similar debt from the aggregate amount of principal and interest for long-term loans payable classified according to fixed terms. (*)

(*)For long-term loans payable subject to special accounting for interest rate swaps, the aggregate amount of principal and interest based on the interest rate swap is used.

(8) Derivatives transactions

The market value is the future quotation value or the value indicated by financial institutions. The market value of derivatives, to which special accounting for interest rate swaps is applied, is stated as part of the market value of long-term loans payable, because these derivatives are operated collectively with the hedged long-term loans payable.

(Note 2) Unlisted shares (stated as 5,051 million yen in the consolidated balance sheets), and shares and bonds of subsidiaries and affiliates (stated as 15,140 million yen in the consolidated balance sheets) are not included in the amount of “(3) Securities and investment securities” because they have no market value, and it is considered to be very difficult to calculate their prevailing prices.

Notes on leasehold properties and other types of real estate

1. Matters relating to the state of leasehold properties and other types of real estate

The Company and some of its consolidated subsidiaries own rental houses, etc. in metropolitan Tokyo and other areas.

2. Matters relating to the market value of leasehold properties and other types of real estate

(Million yen)

Amount stated in the consolidated balance sheets	Market value
13,270	12,517

(Note 1) The amount above stated in the consolidated balance sheet is calculated by deducting the accumulated depreciation and accumulated impairment loss from the acquisition cost.

(Note 2) The amounts based on real estate appraisal by independent real estate appraisers and the amounts based on indices assumed to reflect market value appropriately are adopted as the market value of major properties and the market value of other properties at the end of the reporting fiscal year, respectively.

Notes to per-share information

(Yen)

Net assets per share	1,719.05
Net income per share	168.49

Notes to matters relating to important subsequent events

(Business combination through acquisition)

At the board meeting of the Company held on April 27, 2018, a resolution was passed to acquire all interests in the new company taking over the business of US-based Crescent Communities, LLC through the consolidated subsidiary Sumitomo Forestry America, Inc. and make it a consolidated subsidiary.

1. Overview of the acquisition

(1) Name of acquired company and description of business

Name of acquired company: TBD

Description of business: Apartment development business,
commercial complex development business, spec homes business

(2) Main reason(s) for the acquisition

In July 2017, the Group began developing apartments in North Carolina as a joint venture with Crescent Communities, LLC. We were able to verify that it was a favorable partnership, so the decision was made to acquire the new company for the purpose of business diversification and stabilization of earnings.

(3) Timing of the acquisition

June 2018 (tentative)

(4) Legal form of the acquisition

Cash-based stake acquisition

(5) Percentage of voting rights acquired

100%

(6) Main grounds for decision

Our consolidated subsidiary Sumitomo Forestry America, Inc. will acquire the stakes with cash.

2. Breakdown of acquisition price and type of consideration

<u>Acquisition price</u>	<u>Cash</u>	¥39,300 million (approximate)
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Cost of acquisition		¥39,300 million (approximate)
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(Note) The amount above is approximate as of the date the agreement was signed and may differ from the actual amount depending on future price adjustments, etc.

3. Amount of goodwill, reasons and method/period of amortization

Not yet determined.

Other notes (additional information)

(Finalization of provisional accounting treatment for business combination)

In the previous consolidated fiscal year, provisional accounting was applied for the corporate merger with the Edge Homes Group (Edge Utah Hold Co, LLC and 17 other companies) carried out on February 9, 2017 (US time), but in the consolidated fiscal year under review, the accounting treatment has been finalized.

In conjunction with finalization of this provisional accounting treatment, the finalized amounts reflect adjustment of the purchase price allocation.

As a result, the provisional estimate for goodwill of ¥5,018 million has been reduced ¥1,124 million to ¥3,894 million, and it will be evenly amortized over three years. The decrease in goodwill was a result of a ¥72 million adjustment of the purchase price as well as a ¥42 million increase in real estate for sale, a ¥633 million increase in real estate for sale in process, a ¥1,192 million increase in other intangible assets, a ¥159 million increase in deferred tax liabilities and a ¥513 million increase in non-controlling interests.

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2018

(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	96	1,715	120,387	24,991	(280)	204,311
Changes during the period										
Issuance of new shares	5,000	5,000								10,000
Reversal of reserve for special depreciation					(24)			24		-
Provision of general reserve							14,363	(14,363)		-
Dividends from surplus								(7,085)		(7,085)
Net income								13,545		13,545
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	5,000	5,000	0	-	(24)	-	14,363	(7,879)	(3)	16,457
Balance at the end of current period	32,672	31,613	259	2,857	72	1,715	134,750	17,113	(283)	220,768

	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	25,782	(77)	82	230,098
Changes during the period				
Issuance of new shares				10,000
Reversal of reserve for special depreciation				-
Provision of general reserve				-
Dividends from surplus				(7,085)
Net income				13,545
Purchase of treasury stock				(3)
Disposal of treasury stock				0
Net changes in items other than shareholders' equity	7,544	(144)	48	7,448
Total changes during the period	7,544	(144)	48	23,905
Balance at the end of current period	33,326	(221)	129	254,003

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Summary of significant accounting policies

1. Valuation standards and method for securities

- (1) Held-to-maturity securities
Amortized cost method (Straight-line method)
- (2) Shares held in subsidiaries and affiliates
Cost method based on the moving-average method.
- (3) Other securities:
Securities with a 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.)

Securities with no market value
Cost method based on the moving-average method

2. Valuation standards and method for inventories

Purchased products are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction contracts, developed land and housing for sale, 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 non-consolidated balance sheet is written down when profitability declines.

3. Method of depreciation of noncurrent assets

- (1) Property, plant and equipment (excluding lease assets)
The declining-balance method of depreciation is used. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998 and for accessory equipment and structures acquired on or after April 1, 2017. For overseas consolidated subsidiaries, the straight-line method is used primarily.
- (2) 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).
- (3) 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.

4. Standards for allowance

- (1) 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.
- (2) 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.

(3) 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 of the Company.

(4) 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.

(5) Provision for retirement benefits

A provision for retirement benefits is provided for the necessary amounts based on the estimates of retirement benefit obligations and pension assets at the end of the reporting fiscal year. Should the total estimated figure for pension assets at the end of the reporting fiscal year exceed the total estimated figure for retirement benefit obligations, the surplus is recognized as prepaid pension cost.

a. Service period attribution method for projected retirement benefits

The method of attributing projected retirement benefits to the period up to fiscal year ended March 2017 when calculating retirement benefit obligations is as per the benefit formula standard.

b. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are typically accounted for collectively in the fiscal year in which they occur.

(6) Provision for losses on business of subsidiaries and affiliates

A provision for losses on business of subsidiaries and affiliates is provided to prepare for possible losses by taking into consideration the financial position of the company.

5. Completed contracts and cost of completed contracts

At the end of the fiscal year that ended in March 2017, 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. Hedge accounting methods

(1) Hedge accounting method

Deferred hedge accounting is adopted.

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

(2) 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.

(3) 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.

(4) Method of evaluation for 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. Other important items for compiling non-consolidated financial statements

Consumption tax

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

Notes to the non-consolidated balance sheet

(Million yen)

1. Pledged assets

(1) Pledged assets

Investment securities	18,271
Stocks of subsidiaries and affiliates	6
Long-term loans receivable from subsidiaries and affiliates	122
<u>Other</u>	<u>501</u>
Total	18,900

(2) Liabilities for pledge

Long-term loans payable due within 1 year	28
<u>Long-term loans payable</u>	<u>255</u>
Total	283

2. Accumulated depreciation on property, plant and equipment 23,741

3. Accumulated advanced depreciation on property, plant and equipment 972

4. Guaranteed liabilities

(1) Guarantee on loans, etc. of subsidiaries and affiliates from financial institutions

Sumitomo Forestry America, Inc.	19,109
Vina Eco Board Co., Ltd.	3,789
PT. Kutai Timber Indonesia	1,753
Sumirin Hong Kong Limited	1,381
Sumitomo Forestry Australia Pty Ltd.	1,217
Hachinohe Biomass Electric Power Co., Ltd.	1,105
Sumitomo Forestry (Singapore) Ltd.	836
Kawasaki Biomass Electric Power Co., Ltd.	472
PT. Sumitomo Forestry Indonesia	152
Michinoku Biomass Energy	100
Sumikyo Co., Ltd.	94
MOS Lumber Products Co., Ltd.	41
Sumitomo Forestry (Dalian) Ltd.	24
Fill Care Co., Ltd.	6
Sumikyo Wintec Co., Ltd.	0
Total	30,080

(2) Guarantee on other loans from financial institutions	
Purchasers with housing loans applied	28,632
5. Monetary receivables from and payables to subsidiaries and affiliates (excluding amounts disclosed under separate classifications)	
Short-term monetary receivable	34,482
Short-term monetary payable	64,532
Long-term monetary payable	1,042
6. Notes payable/receivable at the end of the fiscal year	
Notes payable/receivable at the end of the fiscal year are processed on their exchange dates.	
Because the final day of the current fiscal year was a holiday of financial institutions, the following notes payable/receivable at the end of the fiscal year are included in the fiscal year balance.	
Notes receivable - trade	6,762
Notes payable - trade	3,146

Notes to non-consolidated statements of income (Million yen)

Transactions with subsidiaries and affiliates	
Net sales	28,372
Purchase of goods	127,963
Non-operating income	
Interest income	425
Dividends income	6,468
Other	194
Non-operating expenses	43

Notes to non-consolidated statements of changes in net assets

The number of treasury stock as of the end of the reporting fiscal year	
Ordinary shares	283,717

Notes to tax effect accounting

1. Details of the main reason for occurrence of deferred tax assets and liabilities	
Deferred tax assets	
Allowance for doubtful accounts	2,863
Provision for bonuses	1,972
Loss on devaluation of developed land and housing for sale etc.	361
Provision for retirement benefit	2,306
Provision for loss on business of subsidiaries and affiliates	643
Loss on devaluation of securities of subsidiaries and affiliates	5,902
Loss on devaluation of investment securities and golf club membership	1,655
Provision for warranties for completed construction	640
Other	3,642
Subtotal deferred tax assets	19,984
Valuation reserve	△10,950
Total deferred tax assets	9,034
Deferred tax liabilities	
Reserve for advanced depreciation on noncurrent assets	757
Gain on contribution of securities to retirement benefit trust	1,217
Valuation difference on available-for-sale securities	14,164
Other	1,344
Total deferred tax liabilities	17,483
Deferred tax liabilities in net	△8,448

2. Breakdown of major items giving rise to material differences between the statutory effective tax rate and the effective rate of corporate and other income taxes after application of tax effect accounting

Statutory effective tax rate	30.9%
(Adjustment)	
Non-deductible expenses such as entertainment expense	1.1%
Non-taxable income such as dividends received	△11.8%
Inhabitants' tax-per capita levy	1.0%
Valuation allowance	5.6%
Other	△2.9%
Effective rate of corporate and other income taxes after application of tax effect accounting	24.0%

Notes to related party transactions

1. Subsidiaries and affiliates, etc.

(Million yen)

Type	Name of company	Share of voting rights owned by the Company	Relationship	Transaction description	Transaction amount (* 5)	Accounting item	Year-End balance (* 5)
Subsidiary	Sumitomo Forestry Home Engineering Co., Ltd.	Direct 100.0%	Supply of paid materials Construction of ordered housing Interlock of directors	Construction of housing ordered by the Company (* 1)	71,578	Accounts receivable-other	21,716
						Accounts payable for construction contracts	21,026
Subsidiary	Sumitomo Forestry Home Tech Co., Ltd.	Direct 100.0%	After maintenance of housing Interlock of directors	Deposit of surplus fund to the Company (* 2)	-	Deposits received	18,014
Subsidiary	Sumitomo Forestry America, Inc.	Direct 100.0%	Interlock of directors	Loan (* 3)	13,288	Short-term loans receivable	5,275
				Underwriting of capital increase	8,452	Long-term loans receivable	6,327
				Debt guarantee (* 4)	19,109	-	-
						-	-

(*1) Transaction terms and policy for determining transaction terms are determined in the same way as for general transaction conditions.

(*2) Transaction amounts are not shown, because the transactions are conducted repeatedly, and the purpose for this is to centralize fund management within the Group.

(*3) Loan to related parties is determined based on market interest rates.

(*4) The Company guarantees debt for loans borrowed from financial institutions.

(*5) Transaction amounts do not include consumption tax, etc., while year-end balances do.

2. Directors, corporate auditors, individual shareholders, etc.

(Million yen)

Type	Name	Percentage of voting rights held	Relationship	Transaction description	Transaction amount (*2)	Accounting item	Year-end balance (*2)
Corporate auditor	Noriaki Toi	Direct (0.0%)	Corporate auditor of the Company	Home construction contract (*1)	20	Advances received on uncompleted construction contracts	21

(*1) The terms of the transaction, policy for determining those terms, etc. have been decided in the same manner as those of regular transactions.

(*2) The transaction amount does not include consumption tax, etc., but the year-end balance does.

Notes to per-share information

Net assets per share	(Yen) 1,392.43
Net income per share	75.55

Notes to matters relating to important subsequent events

There are no relevant items.